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The Treasury
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Email: superannuation@treasury.gov.au

To whom it may concern,

Re: Three-yearly audit cycle for some self-managed superannuation funds (Discussion Paper – July 2018)

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

Considering an audit still has to be completed each year, and auditors are still required to comply with Australian auditing standards, the same amount testing, enquiring, verifying and recalculation has to be completed. In addition, an audit program would still need to be completed each year. The only efficiencies we can think of, is if one audit report and invoice, instead of three separate audit reports and invoices need to be prepared. We believe this time and cost savings would be minimal, i.e. approximately 3%. However, we believe this time and cost saving will be eroded by wage increases. For example, completing a 2019 financial year audit in 2022 means you are using 2022 wage levels to complete a 2019 audit. Therefore, you are using higher wage costs to complete audits that would otherwise be completed at a lower cost. Hence, this time and cost saving would be eroded anyway as the higher audit costs would naturally be passed on to the trustees.

What also needs to be considered by doing audits every three years is that you may have situations where you are requesting information from four years prior. Therefore, this puts added pressure on trustees to produce information, or clarify / recall transactions, from many years ago. Retrieving this information from four years ago is a lot more difficult than retrieving the same information within the last 12 months. These delays in the audit process will no doubt add to audit costs.

In addition, many trust deeds require an audit to be completed annually. Therefore, to comply with the 3 year audit cycle these deeds would need to be updated which will increase trustee compliance burden, and be an additional cost to trustees.

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

We consider a "clear audit report" to be a situation where there has been no reporting of an ACR in the past five years. We believe a longer time frame for an ACR is required as this is a much more serious breach than non-lodgement of an SAR.

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

An appropriate timely submission of a SAR would be a lodgement of a SAR by the due date, including any extended due dates via the tax agents program in the last 3 years. We believe this to be the fairest definition.

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?

We believe the following events should be triggering events.

EVENT	REASON FOR EVENT
If the Fund has an In-House Asset (IHA) – whether below or above 5% of total assets.	IHA below 5% needs to be monitored in case it creeps above 5% of fund total assets
If the Fund has an investment in a related entity	There could be potential IHA issue or non-arm's length income issue.
If a pension has commenced or ceased.	These transactions revolve around valuations, and therefore could be easily manipulated.
Where a superannuation withdrawal occurs	To ensure the preservation rules have been complied with
Where the fund has an investment, or loan to, in an unrelated unlisted entity.	To warn trustees of any impairment issues in fund assets
Commencement of an LRBA	To ensure the arrangement complies with legislation.
Where a fund has a member with an account balance close to \$1.6M. For example, a member balance of between \$1.5M to \$1.6M.	It is more likely asset values will be manipulated when member balances are approaching a total superannuation balance of

	$1.6M to take advantage of tax concessions.

Definitely the most important issues are investments in related and unrelated unlisted entities. Related entities are important for monitoring potential IHA issues, and investments in unrelated unlisted entities is critical as this where most fund's will lose investment capital without being aware.

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?

A staggered approach should be considered depending on the percentage of funds ineligible for the 3 year audit cycle. For example, if it effects less than 15% of funds I don't see a need for a staggered approach. However, if it does effect more than 15% of funds a staggered approach should be introduced over 3 years. That is, one-third of funds are not audited the first, second and third years. The metric to be used is the last digit in the ABN. That is, digits 1-3 for first year, 4-6 for second year, and 7-9 the third year.

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

We appreciate the Government efforts to reduce red tape and compliance burden for SMSF. However, there are many reasons as to why this policy should not proceed. But none more important than the integrity of the SMSF sector could be compromised. We believe there are other ways the Government could reduce red tape without risking the integrity of the sector. Below are some examples:

1. Incorporate Transfer Balance Account Reporting (TBAR) as part of the annual return.
2. Allow Accountants an exemption to provide advice on setting up a SMSF, commencing a pension income stream, ceasing a pension income stream and winding up a fund without the need for a statement of advice. One way to achieve this is to treat SMSF as a trust structure and not as a financial product. The reality is consumers are being disadvantaged because they are no longer able to obtain simple affordable advice. Hence, the removal of the accountant's exemption is disadvantaging the people it was set to protect.
3. Allow related ungeared unit trust to invest in another entity provided the acquisition is permitted directly by the SMSF, e.g. listed shares.

Yours Sincerely,

Sharif Eldebs
Principal