Good afternoon,

It has been difficult to find the time to address this issue however I have met with my local member who passed my concerns onto the Minister - I have attached a copy of our discussion points from that meeting (point 8 has since been added).

Reference is now made to the 6 points in the discussion paper:

1. How are audit costs and fees expected to change for SMSFs that move to three-yearly audit cycles?
If the proposal proceeds we will monitor time taken and costs in relation to 3 year audits and compare to current time and costs and review our fees accordingly. Initially the fee for the three year audit will be three times the current fee for a one year audit however we expect that following our review of costs and time taken that the three year audit will generally be higher due to the chasing up of source documents etc for a three year period especially in relation to market value of assets, expenses and insurances.

2. Do you consider an alternative definition of "clear audit reports" should be adopted? Why?
A clear audit report should be an audit report without qualifications - an unqualified audit report.

Why? - an ACR is only issued where the breach exceeds the ATO threshold/s unless it is a continuing breach however the audit report should include the qualification in relation to the breach. The SAR contains information in relation to whether part B of the audit report is qualified so this should not be difficult to ascertain and as most part A qualifications would more than likely result in a qualification in part B this could be the measure used. Simply not having an ACR lodged against the fund does not mean it has good record keeping and compliance.

3. What is the most appropriate definition of timely submission of a SAR? Why?
A timely submission of a SAR is a submission of a SAR received within the timeframe prescribed by the legislation however in respect of a fund meeting the "good" fund measures it should be more stringent, say by 30 November, as the later the fund has their documentation ready for audit it is more likely that information is missing or their are issues. These issues may have been sorted out by the accountant prior to reaching the auditor however if this then becomes a three-yearly issue it is more likely that the fund may not submit the 3rd year SAR within the prescribed timefrme.
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?
<u>Key Events</u>:
Any breach in the SISA or SISR, any change in Trustee/s, death of a member, rollover of funds in or out of a fund, commencement of pension or lumpsum payment, commencement of investment in related party asset/s and/or in-house assets, change in Trust Deed, change in Investment Strategy, commencement of insurance policy over a member, commencement of limited recourse borrowing arrangement, commencement of investment in cryptocurrency, purchase of real property, commencement and/or change of lease for real property, opening or change of financial institution account details, trustee travelling overseas for extended period, trustee signing power of attorney in relation to fund, trustee becoming a bankrupt, commencement of investment in exotics/collectables, disposal of asset to related party, purchase of asset from a related party, inspecie asset transfer in or out of fund, commencement of foreign investments, disposal of foreign investments (currency conversion rates used), maintaining a limited recourse borrowing arrangement, receipt of non arms length income, commencement and maintaining an investment in unlisted shares/units.
<u>Significant Compliance Risks:</u>

Death of a member, rollover of funds in or out of a fund, commencement of pension or lumpsum payment, commencement of investment in related party asset/s and/or in-house assets, commencement of insurance policy over a member, commencement of limited recourse borrowing arrangement, commencement of investment in cryptocurrency, purchase of real property, commencement and/or change of lease for real property, opening or change of financial institution account details, trustee travelling overseas for extended period, trustee signing power of attorney in relation to fund, trustee becoming a bankrupt, commencement of investment in exotics/collectables, disposal of asset to related party, purchase of asset from a related party, inspecie asset transfer in or out of fund, commencement of foreign investments, disposal of foreign investments (currency conversion rates used), maintaing a limited recourse borrowing arrangement, receipt of non arms length income, commencement and maintaining an investment in unlisted shares/units.

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?

If this is to proceed then there should be a transition put in place as this not only affects the staffing requirements and revenue of audit firms but will also impact on the GST revenue for the federal government and flowing through to the state governments. How to achieve this in order to even out the impact of the three yearly audit cycle may be best left to each audit firm or more likely the Australian Taxation Office as they have the details of the auditor for each fund and also the records pertaining to a "good" fund and could ensure that only one third of each auditors funds went onto the three year cycle each year of the transitional period - this would no doubt take some time to sort out but should achieve an outcome acceptable to all.

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

See the attached discussion points and comments

Regards

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Meeting with Mr Llew O'Brien MP Federal Member for Wide Bay – discussion points

SMSF audits on a three year cycle for those with a history of good record-keeping and compliance history of three consecutive years of clear audit reports and have lodged the annual return on time.

ISSUES

1. Financial Audit
    - In order to confirm opening and closing balances an auditor will need to audit the full three year period at one time, if this is not done the option then will be to qualify the financial report which will result in annual audits for the next three years (at least).
2. Compliance Audit
    - The auditor will need to review all records of the fund for the three year period to ensure that the fund has complied with the various requirements of the legislation (minutes, annual returns, bank statements, member statements, investment strategy, financial statements, investment documentation, market value calculations etc), if this is not done the option then will be to qualify the compliance report which will result in annual audits for the next three years (at least).
3. Staff experience and retention
    - A number of firms audit in excess of 400 SMSFs each year and if this was reduced for two out of each three years then current staff levels would be surplus to requirements for the two year period and then when the third year occurred more staff we would required and the firms would need to find staff with the necessary experience and knowledge and if they have not conducted a SMSF audit for two years then this may be an issue. Auditors and their staff who audit SMSF's are required to understand the specific legislation applicable to the superannuation industry and therefor cannot just be plucked from an employment agency when required in the third year.
4. Audit Fees
    - A review of comments online shows that a number of auditors agree that an audit in the third year will more than likely take more time than a normal one year audit due to the two year gap which will mean higher audit fees. It is widely accepted that the audit in the third year will cover the full 3 years and result in an audit fee equivalent to 3 times the current annual audit fee or possibly more as it may take longer with more issues in relation to provision of documentation to the auditor.
5. Qualification of Audits
    - Current practice is generally if there is an issue with the financial statements that requires amendment by the accountant then the auditor will advise the accountant so that this is done prior to the audit being completed. It may become more common practice to simply qualify the financial audit thereby ensuring that the three year "clear" history does not occur in order to retain an annual audit. (issues can be market value of assets, incorrect apportionment of income and/or expenses to member statements, incorrect value of income item or expense item)
6. Trustee Behaviour
    - Trustee behaviour is monitored via the annual audit and if this is taken away then it could change quite easily. There are trustees who do not use an external accountant to prepare their financial statements, they prepare them themselves and then have them audited each year. If the annual audit was removed then there

would be no-one seeing what was happening in the fund until the third year was audited which could be in May of the fourth year.

7. ASIC SMSF Registration
   - Currently qualified SMSF auditors audit funds every year. If the three year audit proposal proceeds then an auditor who may have only one or two funds that do not meet the conditions for the three year cycle then it may occur that the auditor will only have one or two funds to audit for each year for the a two year period – will this affect their ASIC SMSF Auditor Registration?
8. Time Frame for Completion of SMSF Audits (SISR 8.03) **– POINT ADDED AFTER MEETING**
   - Currently the timeframe for completion and issuing of the audit report for a single year audit of a SMSF is 28 days. Is this to remain as 28 days for a three year audit or will the timeframe be amended accordingly to 84 days. If it remains as 28 days for a three year audit it may be difficult in always complying with the regulation and possibly resulting in the auditor being fined accordingly. If the timeframe was extended out to 84 days this would mean that all audit documents for all SMSF three year audits would need to be in the hands of the auditor by no later than 19th or 20th February (allowing for leap years) in order for the trustees to be able to lodge by 15 May (giving the auditor the maximum timeframe for completion).