PITCHER PARTNERS

Level 13, 664 Collins Street
Docklands, Victoria 3008

Postal Address
GPO Box 5193
Melbourne, Victoria 3001

Level 1, 80 Monash Drive
Dandenong South, Victoria 3175

Tel +61 3 8610 5000
Fax +61 3 8610 5999
www.pitcher.com.au

13 August 2018

Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Sent via e-mail – Superannuation@treasury.gov.au

Dear Sir/Madam

SUBMISSION
THREE-YEARLY AUDIT CYCLE FOR SOME SELF-MANAGED SUPERANNUATION FUNDS

1. We refer to the Discussion Paper titled *Three-yearly audit cycle for some self-managed superannuation funds* (**Discussion Paper**) released by Treasury on 6 July 2018.

2. Pitcher Partners welcomes the opportunity to comment on this Discussion Paper and the broader policy of reducing the compliance burden for self-managed superannuation fund (SMSF) trustees. Pitcher Partners is supportive of measures that will reduce complexity and/or costs for SMSFs.

3. Pitcher Partners' Superannuation

3.1. Superannuation is one of our key specialisations. We have a team of approximately 50 dedicated superannuation specialists providing accounting, audit and consulting services to our clients. Across Australia, we provide audit services to approximately 2,000 self-managed superannuation funds. This work affords us extensive practical and technical expertise in the audit of self-managed superannuation funds from the perspective of both the fund trustee and fund auditor. We believe our expertise and experience should be of significant value in this consultation process.

3.2. Pitcher Partners is a full service accounting, audit and advisory firm with a long standing reputation for providing expert advice and services to clients with a particular focus on the middle market – which incorporates smaller public companies, large family businesses and small to medium enterprises. We are committed to high ethical standards across all areas of our practice and have expert knowledge of regulatory and compliance requirements.

4. Recommended approach

4.1. We recommend Government facilitate a reduced scope annual audit for eligible superannuation funds as an alternative to the proposed three-yearly audit cycle.

4.2. We believe our alternative approach would better achieve reduced complexity and compliance costs for eligible superannuation funds while maintaining higher levels of audit reliability and effectiveness.

4.3. We note our reasons for supporting a reduced scope annual audit approach over the three-yearly audit approach announced in the 2018-19 Federal Budget in our detailed response to the consultation questions below.

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

5.1. Under the three-yearly audit approach announced in the 2018-19 Federal Budget, total compliance costs and fees are unlikely to change significantly over the three-year cycle. The rigor of an audit demands that actions and activities occurring in years one and two would still need to be considered and reviewed with a similar level of attention and detail in year three as occurs now under the annual audit approach.

5.2. There are very few (if any) economies of scale that can be achieved by conducting multiple year SMSF audits at the same time. We expect as proposed there would merely be a deferral of costs and fees until year three.

5.3. Three-yearly audit cycles may also increase the risk that audit evidence may be more difficult to source and contraventions may be more advanced/entrenched and therefore more difficult to rectify.

5.4. Likewise, the proposal that auditors check for key events affecting eligibility for three-yearly audits would likely increase the level of review and therefore complexity associated with SMSF audits.

5.5. The way to achieve a meaningful and permanent reduction in complexity and compliance costs associated with SMSF audits would be to reduce the scope of the audit required for eligible funds.

6. Question Two: Do you consider an alternative definition of 'clear audit report' should be adopted? Why?

6.1. A reduced scope annual audit approach would achieve greater reductions in costs and complexity compared to the proposed three-yearly audit cycle.

6.2. All superannuation funds with reasonably straightforward affairs, where all members of the fund have access to fund information and where the members/trustees have a good overall compliance history should have access to a concession that reduces the scope of the annual audit required.

6.3. Our approach would also mean fund members and regulators would receive comfort from an independent professional that the governance and management of the fund remains on track each year.

6.4. Concerns about disrupting the workflow of the broader audit industry would also not eventuate.

6.5. Fund auditors are capable of determining if a fund should qualify for the reduced scope audit. Eligibility could be determined by the auditor each year using guidance from the ATO. Ultimately, auditors would take professional responsibility for determining whether a fund is eligible.

6.6. We agree that it should be up to the fund whether they access the reduced scope audit or choose to nevertheless have a full scope audit conducted.

7. Question Three: What is the most appropriate definition of timely submission of a SAR? Why?

7.1. We do not believe the law needs to be as prescriptive as is proposed in the consultation document. It should be possible to legislate that eligibility for a reduced scope audit requires a 'good compliance history' (or words to that effect).

7.2. A good compliance history should be interpreted to require lodgement of returns on time over say the last three years, unless a return was late due to unforeseen circumstances or circumstances out of the control of the fund trustee(s).

7.3. Late returns due to unforeseen circumstances or circumstances out of the control of the fund trustee(s) should not disqualify a fund from eligibility to access the audit concession.

7.4. Fund auditors are independent professionals capable of determining if a fund has a 'good compliance history' which could be assisted through definition or guidance published by the ATO.

8. Question Four: What should be considered a key event for a SMSF that would trigger the need for an audit report in that year?

8.1. Under our recommended reduced scope annual audit approach for eligible funds, assessment of eligibility would occur annually. Legislating prescriptive trigger events rendering a fund ineligible would not be necessary. Rather the ATO could provide guidance on events, actions or activities that may result in a fund not qualifying for a reduced scope audit in that year.

9. **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?**

   9.1. Under our recommended reduced scope annual audit approach, the reduced scope audit could be introduced at any time and there would be no need to consider transition arrangements.

10. **Question Six: Are there any other issues that should be considered in policy development?**

    10.1. We contend the approach to achieve the policy objective of reducing total costs and fees for suitable funds must be reviewed. The proposed approach would not result in material cost savings but would more likely alter when those costs were incurred. There is also the potential for fund members to be exposed to greater risks and potential disruption and impacts on the broader SMSF industry.

    10.2. We contend the way to achieve a meaningful and permanent reduction in complexity and compliance costs associated with SMSF audits would be to reduce the scope of the audit required for eligible funds rather than the frequency of the audit.

    10.3. We believe our alternative approach would better achieve reduced complexity and compliance costs for eligible superannuation funds while maintaining higher levels of audit reliability and effectiveness as both fund members and regulators would retain greater levels of compliance comfort compared to the three-yearly audit approach.

11. Should you have any questions, or wish to discuss any of the comments made in the above submission further, please do not hesitate to contact me or Brad Twentyman on [redacted] or [redacted].

Yours sincerely

M C Hay
Executive Director