



Three-yearly audit
cycle for some self-
managed
superannuation funds

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Background

The purpose and frequency of audits for self-managed superannuation funds have been well stated in the discussion paper – July 2018 and is part of the regulatory requirements for the operation of a SMSF.

As quoted *“the objective of the measure is to incentivise good record-keeping and compliance by SMSF’s whilst maintaining system oversight and integrity”*.

“Under this measure, audits conducted for SMSF’s on a three-yearly audit cycle will cover all of the three preceding years, maintaining integrity within the SMSF sector. SMSF’s that do not meet the eligibility criteria will not be eligible for a three- yearly audit cycle and will continue to be annually audited”.

SMSF audits

The definition of the word ‘audit’ is *“official examination of accounts”*.

Outside of SMSF’s, audits are only required for and are synonymous with, large companies and other large organisations that are accountable to shareholders and stakeholders.

Private companies, private trusts and individual tax returns are not required to be audited.

SMSF auditors are required to: form an opinion on the SMSF’s financial position, form an opinion on whether the SMSF has contravened the SIS Act or SIS Regulations and inform the SMSF trustee of their findings. *(2 parts to the audit process)*.

SMSF administration

The majority of SMSF’s are administered professionally by accountants or specialist administrators for SMSFs.

The software available today for SMSF administration is significantly advanced since the introduction of the SIS Act 1993 and the SIS Regulations 1994. The majority of these systems have automated downloads from banks, stockbrokers and fund managers allowing for accurate daily valuations of the members accounts.

The majority of these systems can and do incorporate “rules” that can automate reconciliations with bank statements.

The exception to this is direct property, unlisted unit trusts and other non-securitised assets. *(However, they are reconciled by the accountant or administrator)*.

It is recognised that there are still SMSF’s that are self-administered or that may be poorly administered due to lack of knowledge by some practitioners. Other issues of concern are that it is estimated that 40% of administrators still do not use adequate systems for managing the financial reports, members accounts and tax returns for SMSFs *(Consideration would need to be given to these categories and a more robust requirement be implemented and regulated for administrators)*.

Conclusion: the financial position of the SMSF can, as with all other tax entities, be clearly determine by the creation of the financial statements generated by the administration process through sophisticated software at the press of a button giving an accurate financial position of the SMSF - this part of the process is consistent and is **simply duplicated by the auditor**. *(This includes members statements and entitlements).*

What is the real purpose of audits of SMSFs

To establish whether the SMSF has contravened the SIS Act or the SIS Regulations.

This part of the process does not meet the definition of “audit”- “*the official examination of accounts*” but for compliance integrity of the SMSF is an important and necessary part of the process.

Conclusion: this part of the process, by definition, is not an audit. And if the requirement for examining the financial position of the SMSF were to be removed from the auditor’s obligation for compliance then we could remove the term “audit” and simply call this process “a compliance approval notification” (CAN) being a certification that confirms that the SMSF complies with the SIS Act and SIS Regulations which is provided after validation. – The main reason that “audits” were implemented originally.

Practicalities of adoption

1. It meets the objective of the Government by reducing red tape and compliance burden for SMSF trustees where suitable.
2. A full audit process could be applied every three-years if required or indeed not at all, if the fund continues to meet its compliance requirements. *(This would allow for a clear message to be sent that “SMSF’s no longer require an audit”).*
3. A “compliance approval notification” (CAN) would be done yearly, it would not be an audit by definition. It would be more cost efficient than a full audit, reducing costs and the financial burden on the SMSF. (better focus on compliance).
4. This would manage the compliance risk on an annual basis and would remove the need for auditing three- years of financials. If a full audit is required and - The need for this would be identified due the compliance process and by the accounting process and if implemented it could be done only for the last financial year. (one year).
5. No transition period would be required. This process could commence from the 2019/20 financial year.
6. Breaches would be identified and managed annually reducing the regulatory burden whilst increasing the focus on compliance regarding the SIS Act or SIS Regulations. If a breach occurs instead of the auditor issuing an ACR they would issue a (CIN) “a compliance infringement notification” (*pronounced ‘sin’*).
7. This process removes the conundrum of “which SMSF’s meet the three-year rule and which don’t?”
8. Current and approved auditors would be the qualified people to execute this new process. *(Their income from each fund would be reduced as the time it would take to do compliance checks would reduce, but they could increase the number of SMSF’s they can manage – maintaining their financial position).*

Other considerations

1. Compliance burdens would reduce and therefore consideration could be given to amending or removing Superannuation (Self Managed Superannuation Funds) Supervisory Levy Imposition Amendment Regulation 2013 (No. 1) - Reducing or removing this levy would save SMSF's additional costs.

Responses to consultation questions – adopting this process

Q1. How are audit costs and fees expected to change for SMSF trustees that moved to three- yearly audit cycles?

A1. If this method is adopted, then the actual costs and fees would reduce.

Q2. Do you consider an alternative definition of 'clear audit reports' should be adopted? Why?

A2. If the method proposed is adopted, then there would be no need for this definition as compliance would be measured by a regular reporting process.

Q3. What is the most appropriate definition of timely submission of a SAR? Why?

A3. An SMSF audit report would be submitted within the Regulators timeframe plus any extension granted. It would therefore mean that a timely submission would not require any extension approvals. This should apply for all reporting requirements.

Q4. What should be considered a key point for a SMSF that would trigger the need for an audit report in that year? Which events present the most significant compliance risks?

A4. If this alternative method is adopted this requirement would not be needed as a compliance infringement would be reported and recorded regularly. The greatest compliance risk is trustees lack of knowledge and understanding their obligations as trustees. – Sec 166 of the SIS Act 1993 deals with this.

Q5. Should arrangements be put in place to manage transition to three – yearly audits for some SMSF's? If so, what metric should be used to stagger the introduction of the measure?

A5. If this alternative method is adopted, there would be no requirement for staggering the introduction of change.

Q6. Are there any other issues that should be considered in policy development?

A6. The proposed method within this paper would, lower cost to the SMSF, would lower compliance requirements yet maintain the integrity of the SMSF and meet the main objective in this discussion paper.