Ryecrofts pty ltd
registered company auditors

Superannuation@treasury.gov.au

31 August 2018

Dear Sir/Madam

Re: Consultation questions

Please find following my response to consultation questions raised. I declare my interest in this process as a smsf auditor and audit over 600 funds per annum.

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

I often am appointed an auditor of a smsf that requires three or more years of audit at the same time (due to late lodgement). I find savings of doing all three audits at once as opposed to three separately on an annual basis in the vicinity of 25%.

I would envisage this would be applicable in any change for SMSFs that move to three-yearly audit cycles. This is because I am required to audit opening balances as part of the auditing standards and this would go back to three years in these cases. In the event trustees do not understand my obligations to do three years audits at the end of a three year cycle, savings would not occur. I believe further costs would be involved with trustees not maintaining adequate records for years 1 and 2 on the basis they only need to account for year three of a cycle.

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

I believe that clear audit reports should include unqualified part B SIS compliance and unmodified part A financial statement audit. This will ensure smsf with investments that are difficult to value or verify ownership are not clear audit reports as these investments traditionally are "riskier" investments. This would include investments in overseas companies, unlisted entities, collectibles.

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

Timely SAR would include lodgement in accordance with statutory requirements (whether those imposed on tax agents or trustees individually)

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?

Any breach of SIS compliance would trigger the need for an audit. Unfortunately, this will be dependent on trustees or their tax agents identifying this and there is clearly a disincentive to do so.

Other events would include instances where member balances move to pension mode or where members move back to accumulation mode with excess of $1.6m in funds.

The most significant compliance risk would be disallowed access to member benefits. With the recent court case involving auditor liability for investment losses, investment review and compliance with strategies is more important.

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

In the event smsf move to three year audit cycles, I believe all smsf should move to a year 1,2 or 3 cycle divided equally. This will enable the industry to keep moving over three years rather than have minimal auditing in years one and two and then attempt to do all audits in year three.

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

The cost savings to be made for trustees would be minimal in comparison to the added burden on the ATO to substitute monitoring of smsf done by auditors. What is currently a user pay system would move back to the government footing the bill for monitoring smsf.

The logic is flawed for this proposal as a cost saver. I firmly believe it should not be adopted. Happy to discuss further as rushing to get this in tonight!

Mr Terrence Vail

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