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

- There is no assumption that a 3 year audit reduce the:
    - Skill
    - Experience
    - Operating Costs
    - Time involvement

  Of an existing auditor?

  Why is there an expectation that an auditor could charge less as the time requirement for three simultaneous audits (3 years) as opposed to three separate individual audits would be quite similar. Audit Standards require the same policies, procedures and workings to be shown for all engagements anyway.

- Current ATO guidance has outlined concern that low audit fees reflect a poor audit and low audit fees are specifically targeted, this proposal contradicts the current practices of the ATO.

- If Auditors invest in technology to audit, trustee receive a service level benefit (eg faster audit turn-around). It is not logical that they receive a financial benefit for lower fees for the auditor investment.

- Poor Government regulation and increasing the complexity of the rules is a barrier is increasing audit times – that should be simplified prior to any other changes are contemplated.

- Why is this whole concept not dealing with other (and much more significant expenditure) of the SMSF's including:

    - Financial Planning Commissions.
    - Actuary Certificates
    - Administrator Costs

- ATO Levy
- ‘Grandfathered’ Insurance Policies that have subsequently been banned?
- Life Insurance Policy Costs?

All of the above are equally eligible to produce increases to retirement savings.

- Specifically, financial planning costs alternative to increase retirement savings:
  - Ban Financial Advice Fees specifically paid by SMSF’s. SMSF members, are more than likely able to fund those fees elsewhere, or don’t have a SMSF in the first place if they desire the payment.
  - Such advice, by FOFA legislation, is holistic, which would encompass more than just the SMSF anyway.
  - The fee difference in an average audit cost to an average financial planning cost would be quite sizable.
  - The fee often represents the time, skill and experience of the auditors. 3 years audits would NOT reduce fees as any of the above do not change.

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

- How can legalisation rely on <u>each</u> audit detecting all problems which would therefore trigger a 3 year audit cycle? Its not always an ‘ideal’ audit.
  - Under a 3 year cycle it could be 6-7 years after an ‘event’ has occurred, that its actually realised and rectified. This will have liability risks for the previous auditor, but ATO risks would also exist in relation to the ability to amend tax return if the ‘first’ 3 year provides an incorrect opinion (for errors and/or wrong information/fraud).

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

- Lodgement by Audit Due date.
- Too many administrators actually delay fund processing anyway.

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?

- Audits should be required every year to maintain transparency of the industry.
- Specific events that are 'high risk'
  - Any Changes of Trustee or membership
  - Death of Member
  - New Member interest (accumulation or pension)
  - Commencing Pension
  - Ceasing Pension
  - Unique investments including;
    - LRBA
    - Rollovers into/out of fund
    - Related party Leases
    - Related party transaction arrangements
    - Existence of Unlisted Investments
    - Existence of Collectables
    - Existence of Unlisted Unit Trusts (related AND unrelated)
    - Any businesses operated by SF
    - (but list goes on and on and on, I don't know how this could possibly be put into regulations/legislations, but it needs to be?)

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?

- On principle, I reject that the proposal is worthwhile or required for the industry.
  - Of course transition arrangements would be required or there is no audit industry and less independence.

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

Our full argument is below:

Broad Policy Benefits with Rebuttals

- Trustees Save Time
    - Reply: There is no time saving as the 3 years still need to be audited.
    - Reply: It would increase trustee time to explain transactions that occurred up to 4 years prior to the audit being conducted.

- Trustees Save Money
    - 3 year audits will not save audit time, processes and procedures are still required for professional standards and AUASB guidelines.
    - Audits costs are already reducing as the leading audit firms increase technology and processes. Is this measure actually required.
    - There are other SMSF procedures that could be eliminated.
        - Ban Financial Planning Fees for investment advice.
            - Often these arrangements deal with the actual individual members for holistic advice and not just the SMSF. Currently this is a way to circumvent the sole purpose rules and fund the financial planning rort.
        - Remove Actuary Calculations (These are computerised formula's anyway)
        - Improve Government complex over regulation and administration by simpler measures ie $1.6M cap and Transfer Balance Cap (there are other simpler measures to achieve the same result).

Negative Impacts overlooked by this announcement

- Increase cost on government via ATO increased regulation required to monitor who is annual and 3 year audits

- Increased ATO workload to ensure compliance of those funds that the auditors would normally oversee.
- Lower SMSF taxation/fee revenue to government through slower/non lodgement of returns. Trustees need to be reminded to do this work and an assumption that would be done would be false. Even the administration sector would be more relaxed in doing their function.
- Increasing ability for fraud within SMSF creating unfair society for those that rort, and those that do not.
- Less Employment
- Less Individual Tax Revenue
- Less GST Revenue
- Probably Lack of Audit Independence
    - Increased pressure to only issue a clean audit.
    - Auditor performs other functions due to reduce workloads in 'off years'

Business Case against the changes

- What government assistance is being provided to the small businesses that operate in the sector?
- The workflow patters proposed would be horrendous. Even a partial adoption would make many businesses untenable due to 3 years of work being required within 1 year.
    - That is provided that the audit business survives until year 3 as revenues could be low in the first 2 years.
    - Would the auditor still be available in 'year 3?'
- This would lead to a greater Increased use of offshore providers to deal with workflow requirements – less jobs within Australia.

Other Consequences

- Lower professional involvement in the sector. The professional bodies are required for honest, reliable professionals in the sector.

- Lower
- Auditing is an aging profession, reducing the hours each year for audits will remove experience from new entrants, thus:
    - thus lowering the available auditors and
    - Eventually increasing prices based on for supply and demand.

Economy Costs of the changes

- Increased opportunity and actual Fraud occurrence.
- Lost tax revenue
- Loss of GST Revenue from Audit Services paid by non-registered purchases.
- Loss of employment within the sector
- Loss of skills within Australia as workflows will demand more short-term labour in peak years (at cheaper rates).