

An aerial photograph of a wide river with a sandy and rocky bed. The water is a deep blue-purple color. The surrounding landscape is a mix of green and brown vegetation. A large, dark silhouette of an eagle in flight is overlaid on the right side of the image, its wings spread wide.

# THE NEW SMSF AUDITOR INDEPENDENCE: TRANSITION CHECKLIST

WE INVITE YOU TO RECEIVE X2 COMPLIMENTARY SMSF TRIAL AUDITS

# HOW TO GET YOUR SMSF AUDIT HOUSE IN ORDER BY THE 30 JUNE 2021 DEADLINE

## Background and purpose of this checklist

Many accounting and administration firms will be affected by the new Independence Guide issued under APES110. Those firms so affected are increasingly viewing the months leading up to the 30 June 2021 hard deadline with deep concern and a looming sense of dread. This Checklist has been designed to assist and guide firms through the decision-making process and minimise any disruption. Note that it is not prescriptive nor does it follow some weighted average formula to arrive at a conclusion. Instead, its purpose is to foster conversations amongst a firm's partnership group and help them arrive at the best fit for their unique circumstances. We hope that this checklist will not only ease the disruption of this change but possibly also improve your firm's overall SMSF offering.

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### 1. IMPACT OF THE NEW RULES ON INDEPENDENCE – DOES THIS IMPACT US?

Although a detailed explanation of the new APES 110 Independence Guide is beyond this Checklist, the salient point is that it essentially prohibits audit engagements where the same firm has also prepared the financial statements (i.e. in-house audits). They have now explicitly applied this to SMSFs in the Guide.

There are also specific restrictions and/or outright prohibitions on reciprocal arrangements with other firms, referring work to recent ex-employees or ex-partners, and arrangements involving firms that are part of a common brand or network.

The full Guide may be reviewed at the following [link](#).

It is Aquila Super's belief that most firms currently having their SMSF audits done internally will be caught by the new rules and will have to find an alternative audit solution.

## 2. INTERNAL DUE DILIGENCE AND NEEDS ANALYSIS

Many firms will seek to start their change process by contacting external SMSF auditors, however, we have found that this can lead to less optimal results. The first, and in some ways, the most important step is to conduct due diligence upon your own internal SMSF offering and processes. The answers to these questions should inform and help determine the optimal SMSF audit option to meet the specific circumstances of your firm.

**Financial considerations:** What is the estimated net financial impact of losing the current in-house SMSF audits? Whilst there may be a drop of revenue there may also be a reduction in expenses (e.g. lowered PI insurance premiums if audit work is dropped).

**Chargeable hours:** What is the impact upon chargeable hours and staffing? Due to the efficiencies inherent in conducting SMSF audits in-house, many firms will not see a proportional reduction in hours lost compared against the fall in revenue. As such replacing internal SMSF audits fees with the same number of external SMSF audits may lead to an increase in chargeable hours required and therefore a drop in profit.

**Ceasing to offer SMSF audit services:** Do we as a Firm want to continue offering SMSF audit services or should we exit the space? Apart from possibly being a less enjoyable type of work for staff, ceasing SMSF audit services may well have an impact on the following:

- Lower risk of future litigation by disgruntled SMSF trustees
- Removal of an area of increased ATO scrutiny and professional QA reviews
- Partners and staff wanting to retain an SMSF auditor's registration under ASIC will still be required to undertake the required CPD or risk losing the registration (currently 30 hours of relevant CPD each rolling 3-year period). ASIC may also impose competency standards including minimum levels of practical experience.

**Staff considerations:** What impact would the various SMSF audit options have upon staff resources and their skill sets (i.e. auditing other firms' SMSFs versus exiting the SMSF audit space)? If we ceased doing SMSF audits could we reallocate staff to other parts of the firm or do we need to decrease staff numbers? If we began offering SMSF audits to external firms do we have enough staff of the right training and skillsets to be able to conduct such auditing work?

**The Audit Pool option:** Would we be willing and able to participate in an SMSF audit pool with several similar firms? In this scenario, the firm's SMSF audits would be allocated to various auditors within the pool. Whilst this may appear initially to be a relatively simple and clean solution to 'plugging' the revenue gap, there are some negatives that must be factored in:

- Whether other firms in the 'pool' conduct their SMSF audits in a similar fashion (e.g. competency, cost, time frame, and the risk profile of the client base).
- How the firm would satisfy the ATO that they have dealt with the self-interest and intimidation threats inherent in any 'pool.'
- Would the firm be happy effectively losing the ability to change SMSF auditor if the quality, approach and turn-around times experienced was below expectations?

It is worth stressing that the ATO's current position seems to be that whilst SMSF audit pools are theoretically possible, they strongly suggest that it would very difficult to overcome the inherent risks. We believe audit pools will only satisfy APES110 where the number of firms participating in the pool is very large, diluting the perceived negative impacts of issuing an adverse audit finding.

### 3. EXTERNAL DUE DILIGENCE AND COMPARISON OF AUDITORS

**Preferred type of external SMSF auditor:** The internal due diligence should have helped narrow down the optimal type of firm to be sought across the three main options: become involved in an SMSF Audit Pool, use another business services practice with no referral arrangement, or use a specialised SMSF audit firm

**Costs and fee schedule:** Whilst accountants will be seeking to obtain the best value for their clients, they should also have a healthy degree of scepticism for very low audit fees. It's also worth noting that the ATO have identified low audit fees as a compliance risk area raising the possibility of a review.

**SMSF competence and experience:** The SMSF knowledge and experience of SMSF auditors vary greatly and the impending changes are likely to attract new accountants to the industry. Many of these will have limited SMSF audit experience, possibly just over the minimum required by ASIC.

**Ability to provide SMSF technical advice:** Many SMSF auditors have significant experience with the SIS Act and compliance with it. Being able to use an external SMSF specialist as a 'sounding board', to effectively run scenarios and prospective transactions past an auditor prior to it occurring can be invaluable and significantly adds to a firm's SMSF offering. Prospective SMSF auditors should be queried on their willingness and capacity to field queries relating to SMSF compliance.

**Number of external auditors:** It may be prudent to use multiple SMSF auditors instead of just one. Whilst there are efficiencies in using just one, having several options does allow a firm flexibility if one auditor's quality dropped.

**Proximity of auditors:** Having an auditor working close by may allow for physical meetings with clients/staff and may also allow for paperwork to be easily transferred (if not done electronically). It does, however, raise strategic and client retention concerns if the SMSF audit firm also engages in similar business services to the Firm.

**Location of audit staff (Australia vs overseas):** Your firm may have a general reluctance to use any accounting services located overseas including audit services. Apart from having the client's records sent offshore, the use of overseas-located staff may need to be communicated to clients to satisfy privacy requirements.

**Use of IT and web-based platforms:** The degree to which a prospective SMSF auditor or audit firm has embraced technology will have an impact on the referring accountant. Failure to have a web portal and client management system may result in additional work and time involved in getting audit jobs completed. Most specialised SMSF audit firms use a client portal reducing the hassle of uploading documents and tracking engagements.

**Scalability and capacity:** Does the audit firm have the capacity to accept new SMSF engagements and actually do the work in a timely basis? This will become more relevant in the coming months as SMSF audit firms become 'booked up'. Some audit firms will address this by employing overseas staff, however knowing this may be relevant to your choice of SMSF audit firm.

**Ability to trial the auditor:** Several SMSF audit firms offer a 'road test' of their services, allowing a prospective client to have several SMSFs audited at concessional rates. This can greatly assist a firm to evaluate the competency and efficiency of the auditors and see whether they would be a good fit for their clients.

## 4. FINAL TRANSITION CONSIDERATIONS

**Impact on processes:** The inclusion of a new external party will inevitably lead to procedural changes when completing SMSF engagements. The impact may be felt with source documentation, common templates, workpaper structure, and overall processes. You will need to closely examine the way you currently complete SMSF work, removing some steps that might now be unnecessary, whilst also modifying other aspects to allow for a smoother handover to the auditor. The goal is to reduce time spent on jobs and also lower the time delays that will inevitably arise from using an auditor external to the firm.

**Permanent records and file:** One of the key areas causing delays when conducting new audits on SMSFs is having access to foundational and core documents. This typically includes trust deeds and variations, but can also extend to LRBA loan documents, unit trust certificates for grandfathered trusts, and title documents for properties owned by a fund. Although your firm might have these documents on their files, they are often spread amongst multiple years' files and potentially hard to locate without spending substantial time. Failure to identify and collate these will inevitably lead to delays in audit completion for the first year undertaken by a new auditor. To prevent such inefficiencies, we recommend that firms use the rest of the financial year to compile such documents into a single permanent file.

**Transition timeframe:** Some firms will only make the transition to a new auditor for their SMSFs on 1 July 2021. Whilst complying with the ATO's compliance approach, this abrupt change doesn't allow for the procedure to be tested and bugs ironed out. We are seeing some firms introduce the external auditor prior to 30 June 2021, in whole or for just for a part of the SMSF client base. Such a move allows a firm to identify and resolve any procedural or documentation issues before the pressure of the 30 June 2021 deadline.

**Client communication:** The last and perhaps most important step will be to notify trustees of the change. Although many trustees are not even aware of who audits their SMSF seeing it as just another overhead, it is still an important change that will require their approval. Of more concern to trustees will be the impact on annual fees and the length of time it may take to complete the annual compliance work.



## ABOUT AQUILA SUPER

Aquila Super is one of Australia's largest and most experienced SMSF specialists and has become the preferred independent SMSF auditor for hundreds of accounting practices, nationwide.

Partnering with Aquila Super removes the complexity, liability and internal resource drain from a practice's regular accounting services. Aquila Super is well aligned to support accounting firms independently of size, that currently provide an SMSF service (with or without audit capabilities), or equally don't provide an SMSF service, but would like to extend their service offering.

### The Aquila Super edge

Advantages of selecting Aquila Super to conduct a practices' SMSF audits include:

- Transference of liability to an established, accredited SMSF specialist
- Confidence that all stringent SMSF client legislative requirements are met
- Assurance that any challenges will actively be addressed, and resolved with a pragmatic approach
- The certainty of a straight-forward and efficient audit process, with complete transparency via cloud-based software
- Direct access to highly experienced staff and a dedicated Audit Partner who boasts excellent technical expertise.

## ENQUIRE NOW

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