

HOT AUDIT ISSUES - PANEL DISCUSSION

Moderated by Nicholas Ali, Superconcepts

Belinda Aisbett, Supersphere

Sharif Eldebs, Assured Super

HOT AUDIT ISSUES - PANEL DISCUSSION

- **3 year audit cycle**
- **Sole purpose test risks on the back of the Aussiegolfa case**
- **Whether auditor's should be monitoring TBAR**
- **Asset valuations and other member balance manipulations**
- **McGoldrick's case and Baumgartner case**

3 year audit cycle

- Treasury are still collating submissions
- ATO setting up an implementation group
- Changes on the political front
- Auditor considerations – trust deeds, office systems, staffing

Sole purpose test risks on the back of the Aussiegolfa case

- First case found the fund failed the sole purpose test
- Appeal found there was no failure of the sole purpose test
- IHA considerations
- Consequences for auditors – knowing to ask questions if there is a sub-trust

Monitoring TBAR?

- Data may be relevant for the auditor, but there is no audit obligation to check TBAR reporting

Asset valuations and other member balance manipulations

- Hangover risks from cost base relief – discounting cost base reset asset sales
- Asset valuations crucial re: \$1.6m cap and member account balances for contribution caps
- DTL? Provision for disposal costs?

McGoldricks and Baumgartners case

- McGoldricks Summary
 - SMSF invested via a trusted friend of the trustee
 - Investment was reported in the fund financials as “cash – LSL Holdings”
 - Investment was not cash, and was ultimately not recoverable
 - Auditor signed unqualified audit reports
 - Initially auditor held not to have caused the loss
 - Appeal: auditor was held 90% accountable for the SMSF loss

McGoldricks and Baumgartners case

Comments by the judge

- Auditor was
 - extraordinarily careless
 - Critical of the auditor for not communicating with the trustee directly
- Audit considerations

Baumgartners summary

- SMSF set up on the recommendation of planner
- Planner invested \$6.13m in related parties or entities associated with the planner
- Auditor signed unqualified audit reports
- Auditor agreed unqualified reports should not have been issued
- Representation letters not always signed by the fund trustee
- Auditor's objective a) fairness of financials b) detection of errors and c) detection of fraud
- Claimed the auditor had a duty of care to point out the "obvious" conflict of interest

Audit considerations

- Engagement letter noted auditor would rely on trustee valuations
- Amending engagement terms in an attempt to remove trustee ability to sue for losses
- Purpose of the audit was “protecting the fund and the trustee against financial risk”
- Auto-audit qualifications
- Investment strategy considerations
- PI insurance?