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**ATO puts the spotlight on Self Managed Superannuation Funds**

With the huge growth in Self Managed Superannuation Funds (SMSFs) in recent years, and up to \$1 billion forecast to be invested in the SMSF sector by 2021, the ATO has announced they will increase the focus on these funds.

Full story page 2

***Audit activity in Australia - what it means for your practice***

Welcome to the first AIB Newsletter. The AIB newsletter is designed to keep you informed of audit activity and claims rates, as well as providing information that helps you get the most out of your Accountancy Practice Audit Protection Service.

We hope you enjoy this edition of our newsletter and would welcome feedback and suggestions for future editions. If you would like other people within your organisation to receive this newsletter, please forward their email to us at [admin@aibrokers.com.au](mailto:admin@aibrokers.com.au)

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## ATO puts the spotlight on Self Managed Superannuation Funds

- AIB speaks to Aaron Dunn, member of the ATO SMSF Auditor's Working Group

With the huge growth in Self Managed Superannuation Funds (SMSFs) in recent years and up to \$1 billion forecast to be invested in the SMSF sector by 2021, the ATO has announced they will increase the focus on these funds. 2007-08 has been earmarked as a year for a significant increase in compliance activities and the development of support tools to assist compliance.

AIB spoke to Aaron Dunn, member of the ATO SMSF auditor's working group and SMSF Specialist Adviser with Outlook Financial Solutions in Melbourne, to find out what to expect from the ATO over the next 12 months.

Dunn reports "The number of audits directed at the SMSF sector has grown dramatically over the past year, from 3500 in 2005-06 to 6500 in 2006-07 and is planned to expand further to over 10,000 in the next year. In addition, the ATO will continue to increase their audit the auditors program of these funds, with up to 1000 auditors being targeted in 2007-08.

"The ATO is moving from an education to an enforcement focus and they are getting smarter in how to do it and who to target. Having a fund covered by Audit Insurance can become important. If the fund is subjected to an audit, there is the question of how the trustees of the fund can mitigate the process and who pays.

"Audits will be targeted to key high risk areas. Up to one third of new funds will be subject to an audit to make sure they are on the straight and narrow from the word go. Other areas of focus will include older funds, established before 2000, because of their closely held trust arrangements."

David Martin, from AIB, agrees the increased attention has had a direct impact. "We have seen claims related to Superannuation Audits increase by over 100% over the past 12 months" he says. "Not only are they becoming more common, the average value of the audit itself has increased by 20% to \$ 2,600 per audit in the same period."



**Aaron Dunn** B.Bus (Acc) CPA SSA®  
SMSF Specialist Adviser®  
Partner  
Outlook Tax & Accounting Solutions Pty Ltd  
Authorised Representative  
Outlook Financial Solutions

The ATO is becoming more sophisticated in the use of technology and data matching to highlight inconsistencies and other triggers that will direct audit activity. Likely increases in the reporting of compliance breaches may also direct activity. "We are moving to a situation where there is more responsibility on the auditors and any compliance breach (first year funds), no matter how small, must be reported" says Dunn.

Some of the ATO criteria for focus on auditors includes auditor independence, auditor competency and, in some instances, the audit price. A fund may be selected for an audit not as a result of its own activity, but due to its trustees, auditors, tax agents or a combination thereof. "Independence is a big issue. Funds may fall into the target category because the accountant they use to lodge the return may also be the auditor" says Dunn. The area of auditor competency is another concern for the ATO. "Of the 12,000 auditors that audit SMSFs, 70% audit less than 5% of the funds and there is a question of competency on some of these people. The ATO will be looking at 7% of all auditors on an annual basis.



**'Our compliance program describes how we go about achieving high levels of compliance with Australia's tax and superannuation laws.'**

Michael D'Ascenzo  
Commissioner of Taxation

Part of the simplification program has involved the ATO going to auditors and seeing how they do it. The results have been questionable at best on some people who thought they knew what they were doing" reports Dunn.

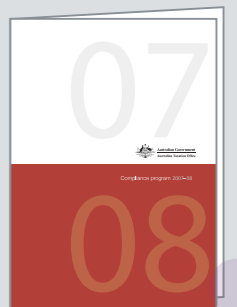
While the ATO focus on enforcement is increasing, further development in education and support tools will also take place to assist those involved in SMSF compliance. Dunn stated, "The ATO is doing a massive redesign of the tax agent portal to provide better support tools such as enabling practitioners to save and track information they put in and help them to do a better job." Professional bodies such as the SMSF Professionals Association of Australia (SPAA) are also looking at support measures to increase auditor competency.

## SNAPSHOT: ATO Compliance Plans for 2007-08

The ATO has just announced their compliance priorities for the current year with the release of the Compliance Program 2007-08.

While the ATO will continue to develop assistance programs to help people comply with their obligations, they will also be increasing their enforcement focus on targeted areas. Areas targeted for increased scrutiny this year include international risks, corporate restructuring, mergers and acquisitions, the cash economy, self-managed super funds and super guarantee obligations.

Further information on the ATO Compliance Program for 2007-08 including ATO priorities and key activities for individuals, business groups and tax practitioners can be found on our website at [www.aibrokers.com](http://www.aibrokers.com) You can download the PDF version of the document.



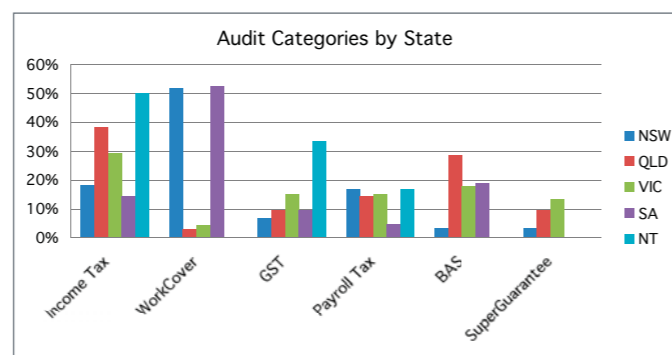
The ATO Compliance Program 2007-08 is available at [www.aibrokers.com](http://www.aibrokers.com)

## AIB Claims Update: WorkCover Audit Activity Takes Off

### WorkCover is now the second most common type of audit claimed:

AIB claims activity indicates the incidence of WorkCover audits has increased significantly over the past 24 months and shows no sign of slowing.

AIB's statistics are drawn from claims made from over 300 practices nationally and provide a strong and timely indicator of physical audit activity being undertaken by the various authorities. AIB has seen its Workers Compensation claims almost double from 11% to 22% of total claims over the past 12 months alone, with this increase particularly evident in NSW and South Australia.



(Source: AIB Claims statistics)

Further supporting Driscoll's view is 300% increase in the NSW Work cover authority's spending on audit activity since 2003/04.

	2003/04	2004/05	2005/06
Wage Audit costs	\$12.7 Million	\$19.2 Million	\$37.0 Million

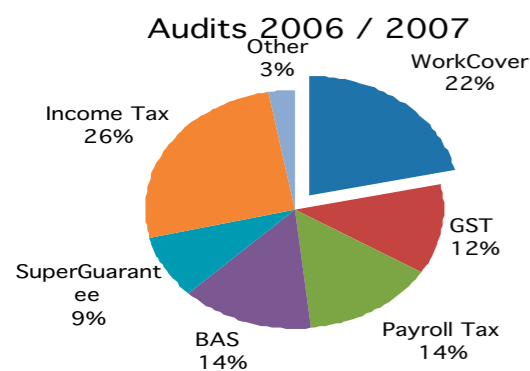
(source: NSW WorkCover Annual reports 2005/06 and 2004/05)

It is notable that the South Australian WorkCover claims have experienced a significant, whilst much less publicised increase over the past twelve months and are now operating at a similar percentage to NSW.

AIB statistics show that WorkCover claims are now the second most frequently claimed audit category after the various taxation related audits.

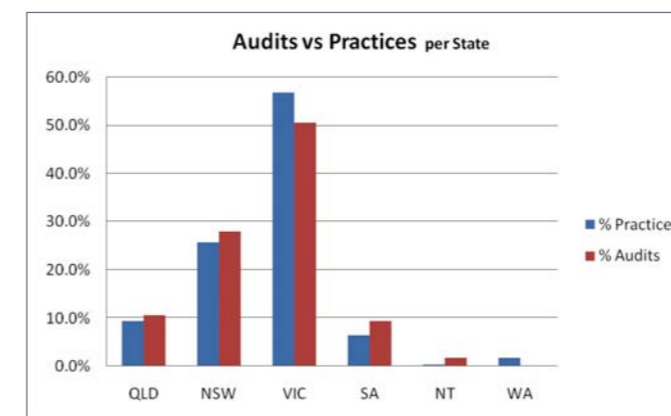
### Audit Activity per State:

AIB's claims data indicates that Queensland and NSW are slightly over represented when the percentage of total claims is compared to the percentage of practices participating in the state. The table following indicates the percentage of practices represented in the sample in each state, as compared with the percentage of claims emanating from each state.



(Source: AIB Claims statistics)

Pat Driscoll (AIB) believes that, certainly in NSW, this activity is a direct result of the woes of the late 1990's early 2000's. "Clearly the well publicised State Parliamentary enquiries and the dramatic under-funding of the whole workers compensation environment has resulted in a significant response" he says. "One of the key initiatives promoted to drive compliance and to generate additional revenues needed to help redress the \$3 billion deficit was random auditing - we are now seeing the impact."



(Source: AIB Claims statistics)

NSW is clearly driven up by WorkCover claims, whilst Queensland reflects an over-representation of Income Tax audits and BAS enquiries amongst the sample.

The clear indication is that (outside of Western Australia where the practice client base is too recent to provide a reliable indication) whilst the mix of audit types may be different, there is a very similar incidence of audits across all states.

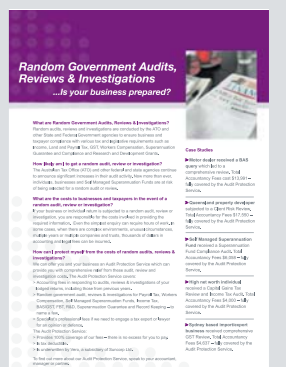
### Claims Incidence:

Forty one percent (41%) of subscribing practices made at least one claim in the past 12 months compared to only 13% in the previous year. This rate of growth reflects an increase in audit activity by government agencies, especially WorkCover and the ATO with BAS enquiries, increasing practice awareness of which audits are eligible for claims, and a continued broadening of the Vero Policy to enable claims previously out of scope to be successfully submitted.

Accountancy practice participation in Tax Audit Insurance offered through AIB is also increasing dramatically. There was a 75% increase in the number of practices offering the Audit Insurance service over the past 12 months and a significant increase in participation is forecast for the next year.

## New Support Material Available

### End User Flyer:



AIB have developed a new end user flyer for our Accountancy Practice Clients to use when promoting the Audit Protection Service to their clients. The flyer, "Random Government Audits, Reviews & Investigations – Is your business prepared?" highlights the business costs involved in audits and the protection offered by the practice's audit insurance service. If you would like to display this flyer in your office or use it for promotional purposes, please contact your account manager or request a copy via email: [ppratt@aibrokers.com.au](mailto:ppratt@aibrokers.com.au)

### Articles for inclusion in your practice newsletter:

To help promote the service to your clients, we will supply articles on audit insurance for inclusion in your practice's newsletters. The articles are able to be tailored by the practice and provide a strong educational focus. To obtain copy for your next newsletter, contact your account manager or email: [ppratt@aibrokers.com.au](mailto:ppratt@aibrokers.com.au) and request a practice newsletter copy sample or send a specific request for a tailored article.

## AIB Case History: Poole and Associates – Swan Hill Victoria

Poole and Associates, an accountancy firm of 4 partners and 36 staff, are based in Swan Hill, Victoria. Poole and Associates have been offering their clients the AIB provided Audit Service Protection for over a year. Prior to the AIB service, they provided audit protection through another broker. We spoke to Robert Schammer, CEO at Poole, to find out how AIB compared to their previous service:



*“The previous guys gave every reason in the book not to pay claims but with AIB its black and white. What they say is what they cover. There are no fights or disputes. The process is simple and streamlined and the claims get resolved without having to worry about them. AIB have pretty much everything covered.”*

In Robert’s experience, “others don’t cover as many areas as AIB and don’t pay the claims as quickly or fully. And they don’t do the administrative work for you.”

The Poole practice has found that, not only has the provision of the AIB Audit Protection Service generated an income of \$35,000 in the first year, it has made it a lot easier to charge full fees for audit work, thereby reducing write-offs for chargeable hours involved in audit work. Poole has found that the promotional program provided by AIB has been a significant factor in helping them to achieve these results. “If someone had said we would triple your fees in audit insurance I would have said ‘Get out of here’, but that’s what they have done. And without any fuss. AIB do it professionally and with the right structure and will get you a better result than anyone else would. It takes almost no effort and they get a result we would never have been able to achieve.”

Overall, the AIB Audit Protection Service has added value to the practice’ service offering and has assisted in optimising their image amongst the client base.

“AIB do it professionally and with the right structure and will get you a better result than anyone else would. It takes almost no effort and they get a result we would never have been able to achieve.”



## Checklist: 10 things to look for in an Audit Protection Service Provider

While several audit insurance options are available in the market, as with any insurance, the service is only worth having if it pays 100% of valid claims, quickly and without a fuss.

Often, the real test only comes when you make a claim but here are some things to look for to help you make the right choice of provider:

- 1 Does the Audit Protection Service Provider have express ASIC relief to provide the service? As Vero is the only underwriter who has an express ASIC relief, if it is not a Vero policy, the accountant (ie you) may be in breach of FSR requirements.
- 2 How much assistance is given to help you, the accounting practice, get your clients to participate in the service and make it a value added service line that is a revenue stream for your business?
- 3 Does the audit insurance cover a wide range of audit types and authorities beyond the ATO? It should include WorkCover, Superannuation, ASIC, phone based BAS enquiries as a minimum.
- 4 Do you maintain complete control of all communications with your client base and is the risk of unauthorised contact by third parties minimal? Single product companies with a strong history are preferred.
- 5 What % of claims are paid? The closer to 100% the better.
- 6 What % of the claim amount is usually paid? Most policies have an excess and many underwriters have a tendency to assign fault and reduce the amounts they’ll pay. Look for protection paying 100% of costs with NO sublimits.
- 7 How quickly are claims paid and is the practice paid directly by the underwriter? Prompt payments made directly to the practice ensure high satisfaction for all parties.
- 8 Are the processes involved in submitting a claim streamlined or will they involve a lot of administration time and follow up? As many claims can be lower in value, the more streamlined the solution the better.
- 9 Does the provider offer interim payments for extended audits? As extended audits can also be expensive, getting them off your WIP via interim payments is a good practice.
- 10 Will the provider give you a range of referees to contact so you can judge their service – before you need to make a claim?

## Reminders and Tips

### Add Audit Protection Service to your new client checklist.

Practices report a very high propensity for new clients to see the value and to subscribe to the solution when they are offered it. When utilised in conjunction with the End User Flyer it becomes a very easy discussion.

**Remember that there are no limits,** therefore claims can be made for small enquiries eg: work involved in responding to phone based BAS enquiries are covered by the policy. Even if the response only involves two professional hours, the simple lodgement process makes the claim worthwhile.

**If you are not sure whether the claim is covered** under the policy or not, lodge it in any case. We will always review it and advise you quickly if there is an issue.

**Always ensure you send your client a copy of the invoice which has been paid** by the policy with “Do Not Pay” clearly written on the invoice. This process ensures end clients see the value of the policy, is a great and positive relationship building opportunity for the practice and is simple to initiate.



AIB in the Community:  
AIB is a proud supporter of  
Assistance Dogs Australia (ADA)  
[www.assistancedogs.org.au](http://www.assistancedogs.org.au)

## *“Tax Audit Insurance ...made easy”*



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