The super audit revolution

Ron Phipps-Ellis takes a look at how technological innovations are changing how audits are performed and the value they may add in the future.

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The future of SMSF audits is undergoing a revolution. Advances in technology are demanding a change of approach in how audits are being performed.

Trustees of SMSFs appoint an Australian Securities and Investments Commission registered auditor, who they usually have never met, to express an opinion on the transactions of the fund by signing both part A and B of the audit report. They must also accept the auditor's findings when contravention reports are lodged with the ATO. It is interesting that there is no single audit standard applicable to SMSFs, which means auditors must use their judgment in applying all relevant international auditing standards. As a result, auditing the statement of financial position and the statement of income and expenses has been an art in deciding how much audit evidence is enough to form an opinion.

The audit approaches used by auditors also vary widely. Some examples are:

- verifying 100 per cent of the transactions of the fund,
- doing a systems and controls review of a pool of clients' funds, and only auditing a random sample of funds from the total pool,
- performing varying levels of risk analysis of the accounting practice and the fund's transactions to determine what constitutes 'sufficient appropriate audit evidence' as prescribed by audit standard 15 issued by the Public Company Accounting Oversight Board,
- automating routine tasks in the financial audit, and
- new 'auditing by exceptions' approaches have emerged using sophisticated audit software and incorporating the use of data feeds.

The software platforms and methodology SMSF auditors currently use are disparate. They range from still being fully paper based, to a hybrid of technologies that are not properly integrated and are quite clumsy, to purpose built software developed by some of the larger specialist super audit practices.

It is this innovative super audit software that has changed the audit approach. The financial audit can be partially completed by using smart technology to automate routine tasks, and then only unusual transactions or exceptions are manually audited, based on the data-fed transactions, which is revolutionising the way SMSF audits are done.

Data feeds have created fundamental changes and efficiencies in how financial statements are prepared. The double entry accounting system of debits and credits is now redundant. We have lost the basic training for our younger generation of accountants in understanding that every debit must equal a credit.

What is data feeding? It is a mechanism for users to electronically receive structured data from various data sources into a software program.

Put simply, it means that rather than manually entering data into an accounting package, it is now electronically prepopulated.

Today, the main sources of data feeds are from financial institutions' bank accounts, authorised share brokers and various wrap account and managed fund providers.

Auditing by exception approach using data feeding

A prerequisite to using this approach is to have access to innovative, fully interactive and integrative electronic audit software. The software must be able to electronically import the full data file from all of the major super software programs. Just importing the general ledger is not enough. It is essential the whole data file containing every single transaction has been imported into the audit program via a secure portal. It is from here that a sophisticated audit software program can automatically perform routine tasks, including:

- analytical reviews,
- calculators, including contributions and pension payments,

- automatic additions of the financial statements,
- cross referencing to work papers, and
- highlighting and reporting exceptions.

What this means is that software can now automatically perform a financial audit (part A of the audit report) on not just a sample of data, but on 100 per cent of data-fed transactions. This has created a fundamental change to what work the auditor now needs to do. Auditors now only need to review, rather than do the financial audit, and only investigate unusual transactions and exceptions. I refer to this as an auditing by exceptions approach.

Of course, auditors will still need to manually verify other assets in the fund that cannot be data fed, such as property and collectibles.

Auditors now have more time to conduct a full compliance/*Superannuation Industry (Supervision) (SIS) Act* review. This is the essential part of the SMSF audit that auditors must perform properly.

Let's now consider what else can be done with all of this data using data analytics.

Data has always been available. It's how our ability to process large amounts of data and interrogate it which has changed.
- Why use data analytics? Because it can:
- Describe what is happening.
- Diagnose why it happened.
- Predict what might happen.
- Decide what should be done.

How is data relevant to the super audit industry?

Firstly, auditors have access to a lot of rich data embedded in each super fund that is audited. We need to start interrogating this data and do something with it. This will include:
- Automatically analysing systemic audit queries raised in prior years and predicting these information requests before we start the current year audit.
- Automatically performing a risk analysis of each fund using both financial and non-financial data.
- Electronically searching various information data bases to reveal both

ownership and control that members and trustees have in assets outside of the fund.
- Collaborating with and adding value to our clients. Essential Information can be automatically produced on demand. For example, an alert for members approaching the pension age can result in proactive advice from accountants or advisers on a pension commencement.

So, by automating the analysis of both internal and external data for both financial and non-financial data, we can use this data to:
- Ensure compliance.
- Reduce audit risk.
- Obtain 100 per cent audit sampling on data-fed transactions, and only investigate exceptions or irregularities.
- Electronically analyse and predict audit outcomes.

The use of complex algorithms embedded in data analytics software will soon permit a real-time audit. When this sort of software is integrated into a smart SMSF audit software platform, financial exceptions or irregularities will become automatically detectable on a daily basis. Performing the audit manually on an interim basis is not feasible given that trustees are unlikely to pay extra audit fees.

Artificial intelligence software is currently being developed. When this software is integrated into a smart SMSF audit software platform, it will be capable of interpreting whether transactions in a super fund have breached the *SIS Act* (part B of the audit report), again on a real-time basis.

It will be the ability to predict such irregularities or breaches that will move us beyond real-time auditing into predictive auditing. This is not far away.

Who would have ever thought the auditor will soon play a critical role in helping accountants, advisers and administrators in providing real-time, and soon to come, predictive value-added information and transactional irregularities?

A further fundamental shift might occur if trustees also had access to these tools. It would allow them to be involved, not only in the investment decision-making process, but also the daily compliance process. This has the potential to allow advisers to have

true end-to-end on-time engagement with their SMSF trustee clients, rather than the traditional in-arrears approach.

A new terminology in the compliance component might eventually evolve, being one of "do it with me", rather than "do it for me". Education of trustees will play a key role in empowering them to make more informed transaction-based decisions, which is the basis of an SMSF's do-it-yourself investment methodology.

We must not lose sight of the fact technology is only an enabler. It will never fully replace the professional skill, judgment and, importantly, the commerciality required of an auditor to do the whole compliance/*SIS* audit. This must be done for each and every super fund that is audited. Without this, it's just not a proper, quality audit. This can't be automated yet.

The revolution in data intelligence has been here for a while. It remains to be seen what challenges it will present to the trendy outsourcing of certain functions to third-party provider models.

Businesses that have ignored technology are suffering, and will continue to do so, even more.

Members of the advice industry have been responding to a radical change in the way they do business and are driving growth through embracing innovative technology.

The SMSF administration industry is already revolutionising the way financial statements are prepared via purpose-built software.

In the past, accountants have been trained to analyse numbers, but now they must be able to analyse the data and help their clients make smarter decisions based on real data insights, rather than intuition alone.

SMSF auditors will need to keep up with technological changes in order to remain competitive with further reductions in SMSF audit fees. It's inevitable.

Super audit practices that want to scale and put consistency, client experiences and relationships at the core, need to embrace technology. This will be done in an individualised way and I have no doubt this is the future business model. ▼