



# Audit Shield

accountancy insurance brokers

newsletter

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### David Moss talks about the ATO's Focus on SMSF's

Starting about one year ago, the first time I had a good look at audit insurance. It grabbed my attention. If you are reading this, then more than likely it did the same for you, even if it was only for a few minutes. For the Full story see page 3.

## Welcome to the AIB Newsletter

The AIB newsletter is designed to keep you informed of AIB and AIB Audit Shield updates and issues, together with some interesting relevant articles and news.

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 [enquiries@aibrokers.com.au](mailto:enquiries@aibrokers.com.au)

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2

From the Desk of Roman Kaczynski

3

ATO Focus on Self Managed Super Funds

4

ATO Compliance Update 2009/2010

6

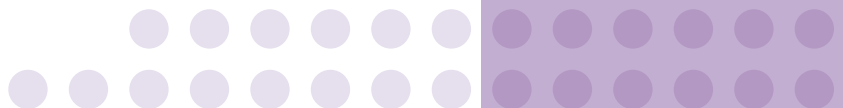
Coaches Corner

7

TAI Web Application

8

Testimonials



## From the Desk of Roman Kaczynski



As we have mentioned in previous newsletters, it is in all parties interests to have a fair and efficient claims process. AIB continue to pursue

this endeavor and are working closely with Vero (the underwriter) and myself (principal claims reviewer), to improve the service.

*We are seeing a disproportionate rate of claims that occur where the clients' decision to participate is very close to what is provided as audit notification.* Without making any inferences that there is an intention to defraud, statistically this is highlighting to us that we should be looking at this. Therefore any claims that come in with payment dates and notifications dates very close, especially where the client has decided to participate in your service outside of the initial and follow up offers that were made by you, we will need to have a closer look at them. Often we ask for third party validation of the clients' payment date, which will include banking evidence and or credit card processing information. We are also contacting the ATO to get validation from their file notes as to the first notification be it by phone or mail to either you, the accountant, or your client direct. This has highlighted some incidents of phone contact being made prior to the clients' participation date. *Also the new policy wording coming out states that cover starts for your client one clear business day from their participation date.*

Other areas I wish to highlight in this newsletter are the issue of work otherwise required to be completed, and a similar area being consequential work undertaken as a result of the audit. It is the intention of the policy to cover professional fees undertaken directly in connection with an audit. Work such as preparing and lodging outstanding returns even though they were demanded during the audit would not constitute fees to be included as part of a claim under this policy. *Further, work in relation to the consequences of the audit, in most cases are, also not to be included as professional fees as part of a claim.* Examples include negotiating payment

arrangements, and going back and amending financial statements to reflect any adjustments the ATO have made are not covered, whilst negotiating a final penalty, and reasonable time to discuss and convey the final position to your client are covered. *A distinction to be drawn here is that the policy covers professional fees in arguing the issues of the audit to its conclusion.* Once that conclusion has been reached the rest is consequential and albeit it may be good practice management, however some of these tasks are not required to reach the audit conclusion.

*"Professional fees can 'include the cost of a qualified solicitor or other professional person you may need to engage that is payable by your client to you for work undertaken in connection with an audit.'"*

There seems to be some confusion about when and how you can engage other service providers to assist you in attending to the audit. The policy states that professional fees can *"include the cost of a qualified solicitor or other professional person you may need to engage that is payable by your client to you for work undertaken in connection with an audit."* Some important things to highlight here are that firstly you still need to be engaged by your client to attend to this audit as it is your policy, not the clients. Also anybody you need to engage is required to assist you in attending to this audit. As a result the normal relationship is that the other services are billed to you not the client. Finally the requirement to substantiate the fees charged by any other professional service you engage to assist you, is the same as for your fees. That is a detailed WIP is required identifying hourly rates, dates of work, who performed them, and comments to explain the tasks involved

Roman Kaczynski ●

## ATO focus on Self Managed Super Funds by David Moss



A little story about Self Managed Superannuation Funds, our mates the Australian Taxation Office and Audit Insurance

*My name is David Moss, I am a superannuation advice expert and this is my story – or part of it anyway, starting about one year ago, the first time I had a good look at audit insurance. It grabbed my attention. If you are reading this, then more than likely it did the same for you, even if it was only for a few minutes.*

Why did it get my attention and why should you care? Because at the time *the ATO had commenced a new phase on its war on SMSF's. Carpet bombing. But instead of ammunition they had learnt the power of using Mass Mailed Questionnaires.* Send questionnaires to thousands of accountants, SMSF auditors and trustees and you are guaranteed to receive some responses that raise red flags.

Over the last year the ATO has been issuing the following superannuation related questionnaires:

- SMSF Trustee Questionnaires, around 10 pages of questions to trustees about why they are using a SMSF, how they operate it and what their services providers (you) do for them.
- SMSF Contribution Questionnaires, a spreadsheet listing the inflows of money into SMSF clients of yours selected by the ATO, requiring you to confirm that numbers are correct and provide breakdowns into various components.

*It is time to get very afraid folks, it is now only a matter of when you or one of your SMSF clients receives a letter from our dear friends at the ATO. If you are not 100% confident about your abilities in servicing SMSF's, be worried. Even if like me, all you do day in day out is superannuation (sound like an exciting guy don't I), it is time to take a good look at the impact this will have on you and your clients.*

*"Send questionnaires to thousands of accountants, SMSF auditors and trustees and you are guaranteed to receive some responses that raise red flags."*

You or your SMSF client receives a questionnaire from the ATO. You know that if the ATO identifies an issue of concern in the responses, you will both go on their follow up list. *As a result you will want to take the time to ensure you provide entirely correct, double checked responses.*

Even if the SMSF compliance history is 100% perfect and you know there are no issues of concern, you will need to spend at a minimum two hours gathering the information requested, making sure this is reported clearly to the ATO so they understand there are no issues of concern, double checking everything was answered right and explaining what this is all about to the client. On the other hand should you be dealing with a 'problem' SMSF, you are looking at many, many hours of work ahead of you.

Very quickly you will accrue thousands of dollars in time costs. There is not much joy in us covering this cost and given the current economic environment the client will not be thrilled to be asked to open their wallet.

And this brings us to why I offered to write this article for AIB. *Audit insurance is becoming a must have for SMSF's.* AIB's policy covers your time spent on answering ATO client specific questionnaires like the above, don't be mistaken in thinking it only covers official 'audits'. Those of you with SMSF clients, I strongly encourage you to call an audit insurer, obtain some further information and offer this option to your clients immediately.

*David Moss is a recognised superannuation expert and a Director of Moss Munro Hunt, a specialist superannuation firm focused on providing expert superannuation services to accountants and their clients ●*

# ATO Compliance Update 2009/2010

The 2009–10 Compliance Program provides a valuable insight into the issues that the ATO will focus on over the next 12 months. Here are some highlights

By the end of this financial year, the ATO is likely to have handled more than 40 million tax returns, BASs, excise collections, superannuation forms and other pieces of paper. Sifting through that mountain of information for signs of non-compliance is an enormous task.

Little wonder, then, that the 2009–10 Compliance Program reads like a family shopping list, with something for every tax and every taxpayer.

Yet it also shows that, while the task grows bigger, the ATO's tools are growing more sophisticated. Better data matching from a wider range of sources, combined with detailed profiling of different industries and taxpayer types, helps the tax office spot potential anomalies without so much as picking up the phone. That makes it all the more likely that one of your clients will receive a letter asking them politely to review their claims.

To take just one example, last financial year the ATO collected an extra \$260m in taxes simply by comparing third-party information on income and benefits with the tax returns of 403,600 individuals. That initiative alone touched 3% of the country's 12m individual taxpayers.

## Navigating the downturn

This year's compliance report was written against the backdrop of the worst economic conditions in 17 years. That poses some interesting problems for the ATO, which faces both declining tax revenues and what it describes as "heightened compliance risks" as cash-strapped taxpayers seek to cut corners.

The ATO has tried to offset those risks with measures ranging from a renewed focus on the cash economy, to early intervention strategies for "phoenix operators" who evade tax through multiple insolvencies. Yet the ATO is also working hard to support businesses under pressure, with a combination of education, support services and more flexible compliance arrangements.

## Individuals

The media has made much of the ATO's success in targeting public company executives and directors during 2008–09, when they collected \$44m in adjustments from just 410 individuals. That program is set to expand this financial year, with private company office-holders also falling into the net, and a renewed focus on shares, options, income-splitting and bonuses paid to Australian resident executives by multinational employers.

Other focus areas for individuals include:

- Dubious work expense claims, especially from truck drivers, sales and marketing managers, sales representatives and electricians.
- Unreported foreign income, with tax returns being matched against data from AUSTRAC.
- Claims of capital losses, particularly on assets bought last financial year and disposed of this year.
- Retail investment products designed to bring forward deductions, artificially reduce risk, produce excessive franking credits or provide non-arm's length financing.

Interestingly, the ATO will also use automated analysis to identify returns prepared for by unregistered agents. Registered tax agents can only applaud!

## Micro-business

Micro-businesses have been big beneficiaries of the ATO's small business support measures this year, including reduced PAYG and GST instalments. The ATO plans to continue that co operative approach, with an emphasis on what it describes as an "outreach program" of seminars, workshops and site visits.

That's partly an acknowledgement of the difficulty many time-poor business owners have complying with complex tax regulations. Yet it's also a recognition of the challenge that the ATO itself faces in policing Australia's 2.7 million micro-businesses. As the ATO admits, "Given the large number of micro-businesses, we rely heavily on information matching". As a result, education is a key important part of the tax office's efforts to induce better compliance.

For those that don't comply, the ATO promises to "respond firmly" with garnishee notices, directors' penalties, and liquidation and bankruptcy proceedings. In particular, the ATO will be:



- Reviewing returns to identify businesses who don't fulfil PAYG obligations.
- Identifying businesses at high-risk of failing to meet superannuation guarantee requirements.
- Cracking down on the cash economy, both through audits and by comparing declared income to industry benchmarks.
- Vetting property investments, with data from land titles offices and other sources.
- Expanding data matching to identify under-reporting of partnership and trust distributions.

### Small and medium enterprises (SMEs)

SMEs with a turnover between \$2m and \$250m will also benefit from the ATO's co-operative approach to compliance, which includes greater flexibility for businesses having difficulty lodging returns or making payments in the current business environment.

Yet the smaller size of this sector (which numbers around 140,000 enterprises) also means that the tax office can take a more hands-on stance. This year the ATO plans to:

- Continue a four-year program of risk assessments involving every taxpayer with a turnover between \$100m and \$200m.
- Conduct 650 reviews and 370 audits of SMEs, with an emphasis on income tax and FBT issues.
- Contact 2,000 SMEs to verify income tax and FBT issues.
- Conduct 120 audits and 420 reviews of wealthy business-owners.

SMEs will also be subject to a vast array of compliance activities. Among other things, the ATO will focus on:

- Non-lodgment or partial lodgment of returns, concentrating on sectors with higher rates of non-lodgment.
- The correct FBT treatment of motor vehicles.
- Attempts to offset capital losses against income.
- Business restructures and exit strategies whose primary aim is to secure a tax advantage
- Phoenix operators who use the deliberate liquidation of related trading entities to evade tax.

### Big business

The ATO takes a more tailored approach to Australia's 1,100 large business groups, which together pay 36% of the country's tax. Last year saw the introduction of annual compliance arrangements (ACAs) to help manage tax risks and provide more certainty for large groups. The ATO plans to expand them this year.

The tax office will continue its long-standing engagement with the business community to promote good governance and implement government policy, while closely reviewing complex business arrangements to ensure they are not tax-driven. And the ATO is stepping up its income tax audits and reviews of big businesses, with plans to cover around a third of all large businesses during the current financial year.

Other areas of concern include merger and acquisition activities; cross-border financing arrangements; failure to withhold tax on interest and dividends paid to non-residents; and the accidental triggering of thin capitalisation rules by falling asset prices. (This last risk is perhaps becoming more remote as asset markets recover.)

### Be prepared

Overall, the report sketches an ambitious program that reflects the growing sophistication of the tax office's compliance techniques, as well as its determination to engage more broadly with the business community.

More importantly, it's a handy checklist of the issues that will invite particular attention from the ATO this year. That makes it essential reading for every tax practitioner.

You can download a full copy of the report from [www.aibrokers.com.au](http://www.aibrokers.com.au)

# Coaches Corner



Thea Foster

## Added Value Corporation

Firm proprietors often want to benchmark their numbers against other firms. They then analyse them to determine why the successful firms achieve their results.

Rather than comparing numbers, why not benchmark activities? What are the very profitable firms doing? Ask yourself: if we are not already doing this, can we adopt it?

Sometimes firms make strategic decisions not to adopt certain activities, the following list allows for that. The list is built around the Nine Universal Business Elements applying to all small businesses

Please contact me at [thea@addedvalue.com.au](mailto:thea@addedvalue.com.au), if you would like some postcards with the names of the Universal Business Elements listed, or you would like more possible action items for each element. Remember, you can use this process with your clients in their businesses.

### The Nine Universal Business Elements

		Done / Doing	Will Do	Decided No
Capital	Co-ownership Agreements current	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Planning	Strategic plan action lists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Management & Admin	Clever billing processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing	Reviewed by a services marketing specialist	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Production	Turnaround measured against standards set	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales	A person in charge of pricing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HR	Specialist external consultants used	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IT	An IT wish list for better planning	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IP	Semi-annual innovation days	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Bridget McQuiad

## Principa

Have you always sensed unexploited potential in your firm? Do you have a vision to expand your practice, make it more profitable, or to take more personal time

without seeing performance suffer?

The Principa Coaching Advisors Network can help make that vision a reality.

Many business owners are operating in a management vacuum – a vacuum of ideas, of benchmark data, of industry trends. This professional isolation is a significant structural barrier to business growth and development. By joining the Principa Coaching Advisors Network you are taking the first step to eliminating that isolation and unlocking the full potential of your firm.

Essentially, the Principa Coaching Advisors Network gives you the stimulus, the guidance, the peer support and the encouragement you need to make your practice significantly more successful by adding a "Business Advisory Division" to the firm, bolstering its value proposition and enhancing its offer to customers.

Using the Principa "Setting up a Consulting Division" protocols, network members gain access to support and guidance from the Principa coach including comprehensive business planning, sales and marketing development sessions, assistance in the recruitment and selection of the right person to head up the new division, participation in the trail blazer workshops and ongoing support for the implementation of the agreed business development strategies of your firm and the new Business Advisory Division.

Success is fast tracked using the proven Principa business development tools and resources, with the Delta4 Consulting System™ and the Delta 4 Advisor System™ the centre piece.

I'd like to invite you find out more about the new and innovative ways Principa can help your firm grow, simply visit our website [www.principa.net](http://www.principa.net) or call us on 07 3257 7900.

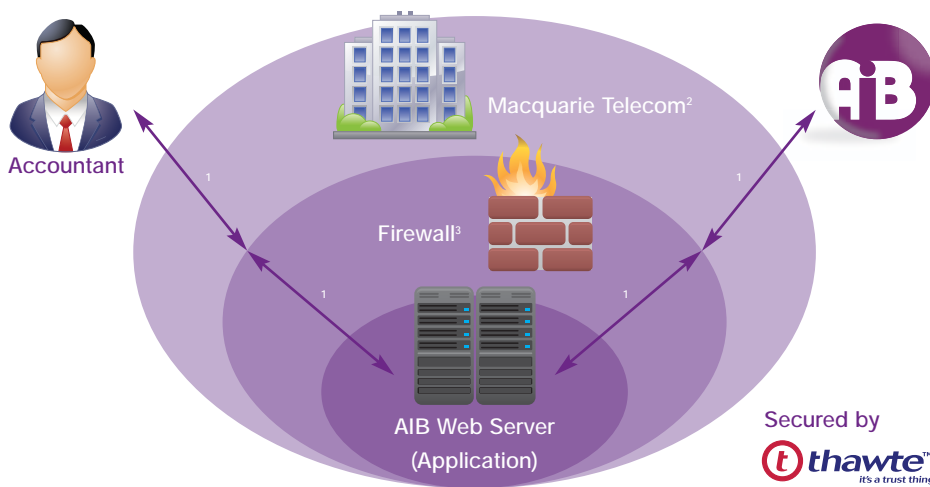
# TAI Web Application

Accountancy Insurance Brokers understands that part of your trust in us depends on how well we keep our data and information systems secure. Our Corporate Security Program is comprehensive, proactive and designed to ensure that all information is protected.

AIB utilises best practice, industry accepted, security principles and practices. Our systems use firewalls and encryption to protect all data and data traffic between accountants' PCs and our web servers. Our web application and your data have built in security features that prevent unauthorised access.

AIB understands that technology is continually evolving. New infiltration techniques and vulnerabilities are discovered daily. To ensure that our system is constantly updated and protected against these vulnerabilities that may affect the security of our client's data, AIB sources experts who are considered the best in their fields.

AIB engaged a highly credentialed security assessor who is a registered PCI Qualified Security Assessor with the Global PCI Council, and on the Australian Governments Mission Critical Infrastructure Program as a registered assessor. *The assessor has completed penetration tests on the AIB web application, to help identify any potential risks. The penetration tests have confirmed the strength of the Tax Audit Insurance system against malicious attacks.* This assessor performs similar services in 14 countries and, in Australia, 4 out of the 5 largest banks use the same assessor.



1. All traffic to and from the AIB web server is secured by Thawte SSL certificate
2. Macquarie Telecom hosts the AIB web server.
3. T4 Protective Security firewall.

Certifications

- ASIO Security Certification
- Defence Signals Doctorate
- Registered Assessor Certification
- ISO27001 Certificate
- Thawte SSL Certificate

## Staff Profile



**Victor Jahja**  
Account Manager

After completing a Bachelor of Commerce at Sydney University, Victor moved to Melbourne where he joined AIB in March 2006.

Following a brief period in Melbourne, Victor moved to Newcastle, with Director Pat Driscoll to help establish an AIB office in New South Wales.

His ability to learn quickly combined with his outstanding work ethic, saw him quickly promoted within AIB. Now

based back in Melbourne Victor is one of AIB's key Account Managers assisting accountants in Victoria, Tasmania, South Australia and Western Australia.

Originally from Indonesia, Victor moved to Singapore in 1995 at the age of 13 and spent 4 years there for his high school education. He then moved to Sydney in 1999.

Victor enjoys playing soccer, going to the movies and watching his favorite AFL team the Western Bulldogs.

In December this year Victor will marry his long time partner Lena in his home city of Jakarta, Indonesia.

Victor and Lena, hope to visit Europe, in the not too distant future. One of their priorities (according to Victor) is to attend an Arsenal FC premier league match.



# Audit Shield

**“Tax and Government Audit Insurance  
...made easy”**

## Testimonials



We have been happy all round with the AIB Audit Shield service, we especially like that we approve the entire process from start to finish and clients pay to take part in the cover, so there is no charge to the firm. The web application is great and user friendly, we have found the

claims process to be seamless and easy to manage.

We were not surprised with the number of claims made which include a lot of BAS Statements. Now more than ever, the ATO are starting to do blanket enquiries/questionnaires on BAS Statements and SMSFs. Most of these clients are covered by Audit Shield which gives us and the client piece of mind.

We had a claim that went to the claims review panel; they asked a few questions and approved the claim to be paid. It was a very easy process.

*Graham Spring & Nancy Lambropoulos  
William Buck  
Sydney, NSW ●*



The concept, the idea and the product are just brilliant! The support and assistance we get from AIB is great, whenever we have a question it is always answered in a prompt and efficient manner.

We haven't needed to put much effort into the service, AIB does all the hard work on our behalf and we get paid for it, it works well.

The TAI web portal is great and user friendly, it makes managing the process so simple. Everything is done online, even lodging a claim is easy, we just load our documents onto the secure web portal, and the claims are processed quickly. There is no comparison to what we previously used before moving to AIB.

*Charles Younis & Kirsten Palmer  
Younis & Co  
Rose Hill, NSW ●*



## Introducing the AIB Melbourne Team

### Back Row:

(Left to right) *Kris Sapoetra, Grant Keys, Fendi Tendra, Rod Lindus, Victor Jahja.*

### Front Row:

(Left to right) *Keryn Salter, Melisa Ouw, Albert Widjaja, Paul Bautronej, Yuliana Sopian, Kristy Holbrook.*

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