

Service Briefing Audit Management Service

Audit Management Service.

Audit Management Service ('AMS') is a fee based subscription service that allows accountancy, financial planning, wealth management, superannuation consultant firms ('professional firms') to offer their clients 'paid' professional assistance, up to selected professional fee limits, in the event their client needs to respond to any form of inquiry, investigation, review or audit on a return legally required to be lodged with a New Zealand Government agency. (see 'More about AMS' below.)

A similar service operates for returns lodged with an Australian Government agency. Please refer to www.auditinsure.com.au or contact www.auditservices.com.au.

International Underwriting Agencies Ltd & SME Services Ltd.

International Underwriting Agencies Ltd ('IUA') is the originator of several leading audit insurance policies that are underwritten by QBE Insurance (International) Ltd ('QBE'). IUA manages the underwriting facility on behalf of QBE and deals with hundreds of professional firms across New Zealand.

Related company, SME Services Ltd ('SMES') manages the AMS subscription process. The professional firm manages the audit process.

The benefits of AMS.

For the professional firm clients, reduced stress and financial comfort knowing they can easily access 'paid' professional assistance up to the professional fee limit selected.

For professional firms, a seamless proactive valued added client service that delivers a win/win outcome in this era of significantly increased government audits; ties the client to the firm as the firm provides the AMS; reduces client angst, potential conflict and disturbance to the client relationship; the ability to FULLY recover hours and costs (there is no excess) incurred to manage the audit process, thus no more discounting; prompt settlement of professional fees directly to your nominated bank account; and progress payments for long dated audits.

More about AMS

AMS allows professional firms the ability to cover external professional fees incurred in responding to any form of inquiry, investigation, review or audit undertaken by a government agency on any past returns legally required to be lodged by their clients, directly or indirectly.

- 'professional fees' mostly applies to accountancy fees, but also includes legal, actuary or any other qualified party's costs. The term also includes associated disbursement costs.
- 'government agency' means any New Zealand government agency. It's important to note that AMS only responds to audits of previously lodged returns and not open audits of an individual or business entity.
- 'returns' include all returns previously lodged, no matter how long ago.

The ability to offer AMS is supported by a Gov Audits policy that is a contract of insurance between the professional firm and QBE.

AMS offers a very comprehensive scope of protection, namely:

1. Covers all returns legally required to be lodged (by client or the professional firm – without qualification as to who should lodge, sight or sign off) with any government agency. It doesn't matter how long ago the return was lodged.
2. Compliance audits of superannuation funds, irrespective of member size, are automatically covered for no additional cost. Self managed funds are treated the same as corporate funds.
3. All risks are accepted up to \$50M turnover. Risks over \$50M need to be referred for an alternative approach.
4. Whilst returns must be lodged within 3 months of the prescribed date or an approved extension, there is no condition that the tax/duty must be paid by the same date.
5. Professional fees aren't denied because the professional firm's client has inadvertently not fully disclosed all figures to the relevant government agency.
6. Professional fees, including legal or court costs, incurred with respect to determining if any fines, penalties or further action should be taken against a tax or duty payer are covered.
7. Additional professional fees where an audit needs to be reopened/revisited any time in the future are covered, however, the additional fees can't exceed the level of professional fees selected, taking into account any professional fees already paid with respect to the particular audit.
8. Professional fees incurred where an audit extends beyond 12 months are covered.
9. Professional fees incurred to manage an audit aren't denied to the professional firm because their client hasn't retained required records or satisfied record keeping requirements, however, any professional fees incurred to rewrite/re-establish relevant records aren't covered.
10. The recovery of professional fees isn't influenced by the level of fines, penalties or assessment imposed on the tax or duty payer unless dishonesty or fraud is involved or where any amended assessment is greater than 25%.
11. Progress payments where the audit process drags over several or more months.
12. Where an audit should have been reported to the insurer during the previous renewal period, however was overlooked, a claim can be submitted in the current renewal period so long as the professional firm holds a current policy with the insurer and the client has renewed their AMS subscription. The insurer will pay 75% of the professional fees being claimed subject to general policy terms and conditions.
13. We understand our pricing is the most competitive in the market.
14. We're told that we deliver unmatched technical support and claim settlements.

What is not included?

- Dishonesty or fraud.
- Any amended assessment, fines or penalties.
- Returns that are lodged more than 3 months outside the prescribed dates or as amended by an authorised extension.
- Circumstances known by the client or the professional firm that are likely to lead to an audit or verbal/written advice of a pending audit already received by the client or the professional firm.
- Returns lodged where the tax or duty payer is seeking a refund of tax or duty that involves further substantiation between the tax or duty payer and the government agency.
- Compliance audits undertaken for the purpose of an entity maintaining its membership, subscription, registration, operating license, OHS status etc.
- Arrangements without a prior Product Ruling.

Marketing AMS.

The process entails the professional firm communicating to their clients; providing them with a Client Acceptance Form, which the client completes; and returns to SMES with their subscription payment. SMES then manages the ongoing subscription process.

SMES ensures that client subscribers are added to the professional firm's Gov Audits policy on a monthly basis.

Who can join?

All individual clients (although, may not suit pure wage and salary earners), trusts, superannuation funds and trading/not for profit entities up to \$50m turnover/revenue. Over \$50m, refer to www.auditprotect.co.nz or contact us.

What's the highest level of professional fees available?

For Individuals \$10,000; for Self Employed \$15,000; and trading/not for profit entities \$50,000.

Where over \$50,000 sought by trading/not for profit entities, refer to www.auditprotect.co.nz or contact us.

What's the procedure?

The professional firm establishes a Gov Audit policy; have clients subscribe to AMS by completing a Client Acceptance Form and submitting to SMES with their payment. We'll manage the subscription process thereafter and report to you monthly as to progress. Your firm also gains real time website access to our secure website to view client status.

Clients list those 'names' (i.e., individuals, partnerships, trusts, superfunds, business and other entities etc.) to be covered for AMS on the Client Acceptance Form. Listed 'names' will share the 'AMS Level' selected.

Clients will be covered for AMS upon SMES receiving the completed Client Acceptance Form and payment of the AMS Fee. Following receipt, SMES will issue a Tax Invoice to the client.

In 11 months time, SMES will send an AMS Renewal Invite to clients to renew their AMS subscription for a further 12 months.

SMES will organise to have clients added to the professional firms Audit Insure policy.

AMS fees. (Refer additional notes below.)

<u>Shared Level</u>	<u>AMS Fee</u>	<u>Shared Level</u>	<u>AMS Fee</u>
\$5,000	\$245	\$10,000*	\$475
\$15,000^	\$665	\$20,000	\$770
\$25,000	\$1,035	\$30,000	\$1,350
\$35,000	\$1,615	\$50,000	\$2,875

Notes.

1. * Maximum 'Level' for Individuals & 'Private/Passive Trusts'.
2. ^Maximum 'Level' for Self Employed.
3. The AMS Fee includes a margin that is paid to the professional firm on an ongoing basis i.e., for both new and renewed AMS.
4. AMS Levels are GST exclusive.
5. AMS Fees are GST inclusive.

The following points need to be taken into consideration in determining the most relevant Professional Fee level:

1. The priority is for professional firms to ensure selection of a professional fee level that will cover professional fees incurred on one or more audits that may arise during the same 12 month period.
2. Don't just think 'Inland Revenue' re audit activity. Think of all New Zealand Government audits your clients are exposed to.
3. Where 'Individuals' are listed with 'Business entities', the individuals listed must be the directors/owners of the 'business entities' and their family members.
4. Where 'Business and other entities' are listed, there must be majority (50%+) common ownership.
5. Typically, the larger or more complex the relevant 'entities', the higher the limit as any government audits are likely to be more involved and thus incur higher professional fees.

What triggers client assistance under AMS?

Professional assistance commences once your firm or your client is informed that a previously lodged return is being subjected to an inquiry, investigation, review or audit.

Whilst IUA doesn't have claims settling authority, we designed the Gov Audits policy; so we understand what is and isn't covered; we're best placed to assist with the compilation of required claims documents and sort any issues; make recommendations to QBE; and oversee the settlement process.

We have a vested interest to ensure the process occurs professionally.

To maximise claims settlement times, professional firms need to submit required documents to IUA as quickly as possible.

Once we have the required documents, claims settlement occurs quickly.

What's the claims procedure?

1. As soon as possible after being advised of a client audit, complete a Claim Form and email/fax/mail to IUA with a copy of the communication from the relevant government agency.
2. Whilst no prior approval is required to manage the audit process (including the engagement of other professionals to assist), relevant staff at standard hourly rates will be utilised to manage the audit process.
3. As soon as advised, IUA will register your claim and then await additional documents.
4. With longer dated audits, progress payments will be made.

Frequently asked questions

Are all professional firms treated the same?

Yes and hopefully, this is ongoing.

All professional firms start with the same pricing structure.

Under normal claims loss ratios, the pricing structure may rise from time to time and apply across all professional firms.

Where a professional firm incurs loss ratios outside the norm, their claims will be examined to see if a likely 'one off' event due to their area of speciality. If unacceptable loss ratios continue, the pricing structure for that particular professional firm will be adjusted. If the loss ratio remains unacceptable, the insurer will terminate the policy.

Basically, we view AMS as a form of 'financial guarantee' for professional firms, i.e., an ability to ensure full recovery of hours incurred on client audit response activities and payment of professional fees incurred by the insurer, rather than relying on your client.

AMS is there to be 'used', rather than 'abused', i.e., your firm shouldn't try to pick those clients that are at a greater risk of being audited as many professional firms tend to think Inland Revenue activity and ignore all the New Zealand Government agencies that also undertake audits.

Can AMS be offered to all our clients?

Yes, however, business entities over \$50m combined turnover need to be referred so we can quote under an alternative insurance policy.

What returns are included?

All previously lodged returns that were legally required to be lodged with a New Zealand Government agency. It matters not how long ago the return was lodged.

‘Returns lodged’. Please explain?

AMS is triggered where an inquiry, investigation, examination, review or audit is initiated after a ‘legally required’ return has been lodged with a relevant New Zealand Government agency.

Any activities incurred prior to lodgement of a return aren’t covered.

What’s a suitable Professional Fee level?

This really depends on the number of names within the ‘client group’ (bearing in mind that all share the selected level); the connectivity of the names (i.e., will an audit of one name trigger a flow on of audits to other names listed); and the structure of the names (i.e., is each name a stand alone or are there trusts or other interconnecting structures that are likely to attract the attention of various government agencies).

What professional fees and costs are included?

Your firm is expected to utilise fair & reasonable resources that you would otherwise use for the type of audit involved and bill at the standard hourly rate. Typical disbursement costs are also included plus travel and accommodation costs if the audit process is undertaken in another city or town.

Will our professional fees be challenged?

No professional firm need fear if they are conducting themselves in a professional manner; utilising relevant resources; charging standard hourly rates; and are not endeavouring to profiteer.

We recommend that a separate audit billing code (under relevant client codes) be used so as to differentiate audit activities plus the Tax Invoice must be made out to QBE Insurance (International) Ltd, AMP Centre, 29 Customs Street West, Auckland, NZ.

Does the ability to claim professional fees stop if AMS isn’t continued?

No. If an audit is commenced during and continues beyond the expiry of the current subscription period, professional fees can continue to be claimed up to the professional fee limit selected.

How do we proceed?

There’s bound to be some additional questions. Our contact details follow or contact your insurance broker.

Contact details

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