

Welcome

My name is Kerry Henry and I'm the originator of the modern day audit insurance products available to accountancy firms. My background in Audit Insurance dates back to the late 1980's.

I'm acting today in the capacity as a Corporate Authorised Representative of Apex Insurance Brokers (AFSL 236871) with a large number of accountancy firms, across Australia, as long term clients.

Audit Insure™ origins date back to 1998 and offers the widest scope of cover currently available in the Australian market place and is underwritten by the highly rated and respected QBE Insurance (Australia) Limited ('QBE'). *Audit Insure™* is exclusively distributed by Underwriting Australia Pty Ltd ('UAPL') via licensed insurance brokers.

Audit Insure™ is the preferred audit insurance product recommended to accountancy firms and their clients by the majority of insurance brokers across Australia. Whilst this is the best independent testimonial possible, having numerous accountancy firms as clients since 1998 is a further endorsement.

About *Audit Insure™*

Audit Insure™ covers audits of previously lodged returns as well as compliance audits undertaken by State and Commonwealth Government Agencies that administer any form of tax, duty, workers compensation or superannuation funds and contributions.

Audit Insure™ is offered on a 'blanket' basis ('all clients in') or 'declaration' basis ('client opt-in').

There are several ways this can be achieved offline or online. I'll discuss the options* and determine which best suits your practice so as to achieve maximum client take-up. (** If an accountancy firm wants to refer interested clients, we can set up audit insurance cover on a 'client by client' basis.*)

Suffice to say, your firm is near totally removed from the ongoing process. The Privacy Act stipulates initial client communication, however, thereafter the rest of the administration; stationary and handling costs are outsourced to related company, Audit Services Pty Ltd. Your firm has 24/7 website access to view client status at any time, plus receives monthly activity reports.

Accountancy firms are given the opportunity to include a margin to cover any internal costs to communicate with clients. The margin is paid on both new and renewed business. Most accountancy firms add a nominal amount so as to achieve maximum client take-up. Some add an extra unit of cost next time they are billing their client for general accounting activity.

For many, the financial reward comes from being able to fully recover hours and costs incurred in audit activity.

Audit Services Pty Ltd has also established their own *Audit Insure™* policy that accountancy firms can utilise for their clients if they don't wish to establish their own *Audit Insure™* policy.

Again, I can address the various options with your firm at the time.

FSRA compliance

QBE's *Audit Insure*[™] policy is fully FSRA compliant. Refer <http://www.auditinsure.com/qbecl.pdf>.

Consistent with QBE's observation at the start of FSRA in 2004, ASIC in late 2006 ratified that providing audit insurance, as either a 'blanket' (all clients in) or 'declaration' (clients opt-in), was determined to be an 'incidental component' of the accounting service and thus not in contravention of FRSA provisions.

An accountancy firm can distribute audit insurance to clients without the need for FSRA licensing. Refer <http://www.auditinsure.com/asic.pdf>. Please note that ASIC's ratification has equal application to any audit insurance product offerings, as outlined above. Please be wary of any party that claims otherwise.

What's the upside?

For accountancy firms?

- ↳ Zero costs to establish and near zero costs to administer, as the process is outsourced.
 - ↳ Client has to engage the accountancy firm to access the benefits of *Audit Insure*[™].
 - ↳ Reduced client angst.
 - ↳ Higher likelihood that clients will engage the accountancy firm on other audit related matters that they would typically avoid on the basis of fees being incurred.
 - ↳ Fully able to recover hours and costs incurred in audit activity, plus fewer write-offs.
 - ↳ Invoice QBE and be paid with 3-5 business days. Improved debtor management and enhanced cash flow.
 - ↳ Other than the initial client communication (typically undertaken by email) all other activities are outsourced. There's no further handling by the accountancy firm; no stationary or postage costs; no operational software; and limited involvement of busy staff.
 - ↳ Whilst the primary focus should be on 'client sign-up' (keeping the cost as low as possible will assist), there's the opportunity for an ongoing revenue stream.
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For clients?

- ↳ Access to paid professional assistance.
 - ↳ Reduced angst.
 - ↳ No stress on cash flow to pay unexpected accountancy fees resulting from unplanned government audits.
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What's covered? What's not covered?

What's covered?

Professional fees incurred to assist a client respond to an 'audit' of a previously lodged return or a 'compliance audit' undertaken by a State or Commonwealth Government Agency that administers taxes, duties, superannuation or workers compensation, plus fees to compile and submit the relevant claim.

What's not covered?

1. Dishonesty or fraud.
2. Any amended assessment, fines or penalties.
3. Audits on returns lodged more than 3 months after prescribed dates or any authorised extension.
4. Known circumstances.
5. Any activities involving money laundering; foreign sourced income not properly declared; or the use of tax havens or the like.
6. Compliance audits undertaken for the purpose of an entity maintaining its membership, subscription, registration, operating license, OHS status etc.

How does *Audit Insure*TM differ?

Policy appreciation

*Audit Insure*TM should be viewed as a form of a 'financial guarantee'.

Accountancy firms need to take a longer term view of having a *Audit Insure*TM policy that will allow them to fully recover hours and fees incurred in client 'audit' and 'compliance audit' activity, subject of course to claims frequency and severity.

Whilst *Audit Insure*TM covers other professional fee costs, i.e., obtaining a legal opinion etc., accountancy firms have the option to limit professional fees to their services only. This is on the basis that (a) establishing the *Audit Insure*TM policy was primarily so that the accountancy firm is the beneficiary and (b) the inclusion of other professional fees costs will impact on the overall loss ratio i.e., other professionals may benefit, whilst the accountancy firm is penalised by a potential adverse loss ratio.

Our accountancy firm clients benefit from our 15+ years of specialisation in Audit Insurance.

Scope of cover

In difference to market offerings:

- **Audit** automatically includes an examination, inquiry, investigation, questioning, review or audit of (a) your client's activities e.g., an OSR audit to determine if your client is payroll tax compliant and (b) any returns/declarations previously lodged by your client. Audit also includes where an audit is conducted for the sole purpose of determining if any tax or duty liability exists or levy if any fine or penalty should be imposed.
- **Professional fees** incurred continue until the sum insured, nominated for that client for the relevant period, of insurance, has been exhausted. Cover doesn't stop when a final assessment is received or 12 months after the audit commenced. There's no time restriction, including where a case maybe re-opened in the future based on a ruling change.
- **Government Agency** refers to those agencies overseeing taxes, duties, superannuation and workers compensation premiums. With workers compensation, this also includes workers compensation placed with private insurers in Tasmania, Northern Territory and West Australia.
- **All clients included** - all individuals (and their spouse or partner, irrespective of the size or source of their income), trusts, superfunds (irrespective of member size), any trading or business entities and the like are covered.
- **Progress payments** without any qualifications (timing or amount) or discretionary waivers on progress payments, however, QBE isn't expecting Tax Invoices for nominal amounts.
- **No culpability.**
- **Missed claims.** Rather than limit late notification to 30 days after the expiry date for claims that should have been reported during the previous period of insurance, where the Audit Insure policy is renewed, the 30 day period is waived, but the amount paid of the claim is limited to 75%. Yes, mistakes can and do happen.

What level of sum insured is best?

No two situations are the same, so it's impossible to provide a precise answer.

However, over the many years, claims history does provide some guidance. If the sum insured selected isn't ultimately sufficient for one or more audits that may occur during the same period of insurance, comfort can be taken that the majority of professional fees incurred will be paid.

The selected sum insured is shared by the 'Names to be insured' listed below and is inclusive of GST.

Direct family members and common majority owned entities that form a Client Group share a selected sum insured that is dependent on the range of exposure to various government agencies and the complexity of the Client Group's financial affairs and structure.

Audit Insure™ can cover all individual clients (although, may not suit pure wage and salary earners), trusts, superannuation funds and trading/not for profit entities etc. up to \$50m turnover/revenue. For clients over \$50m turnover, it's best they have their own 'standalone/tailored' policy as their needs will be more detailed. The same scope of cover applies – refer www.auditprotect.com.au.

Suggested 'shared' Sum Insureds follow. Refer # below for additional guidance.

	Sum Insureds							
	\$5K	\$10K	\$15K	\$20K	\$25K	\$30K	\$35K	\$50K
1. Individual x 1	✓							
2. Individuals x 2	✓	✓						
3. Individuals x 3		✓						
4. Individuals x 4		✓	✓					
5. Individuals + Trust		✓	✓					
6. Individuals + Trust + SMSF		✓	✓					
7. Self employed	✓	✓						
8. Self employed + Trust and/or SMSF		✓	✓					
9. 1. to 6. above + business up to <\$500K turnover		✓	✓					
10. 1. to 6. above + business up to \$1.5M turnover			✓	✓				
11. 1. to 6. above + business up to \$2.5M turnover				✓	✓			
12. 1. to 6. above + business up to \$5M turnover				✓	✓			
13. 1. to 6. above + business up to \$10M turnover					✓	✓		
14. 1. to 6. above + business up to \$15M turnover					✓	✓		
15. 1. to 6. above + business up to \$20M turnover						✓	✓	
16. 1. to 6. above + business up to \$30M turnover						✓	✓	
17. 1. to 6. above + business up to \$50M turnover							✓	✓

the reason for 2 options, in most cases, recognises differing client needs. Some Individuals may have more investments or several trusts or a larger member SMSF than others. Some businesses may have several trading entities. If in doubt, we'd recommend the higher sum insured. Note that 'Individuals' are same family or directors of the same business and listed businesses are common majority owned.)

Excess and pricing

There is nil excess.

Pricing is determined by the 'shared' Sum Insured selected.

As an example, 'Bloggs Client Group' consists of 'Mr Bloggs, Mrs Bloggs, Bloggs SMSF, Bloggs Small Business with a 'shared' Sum Insured of \$10,000, the annual premium is \$305.

Remember that **Audit Insure™** covers both 'audit of lodged returns' and 'compliance audits'.

Claims

The claims process is simple and transparent, with claims invoiced to QBE and paid within 3-5 business days following receipt of required documents.

- Once the accountancy firm or client receives notice of an 'audit' (in the broader definition), a Claims Advice is completed and forwarded with a copy of the 'audit' notice.
- The accountancy firm proceeds to manage the 'audit' using the internal resources typical for the type of 'audit' and charges standard hourly rates. Remember that the *Audit Insure™* policy needs to be properly used, as any inflated costs will impact the loss ratio which determines the level of premiums or the continuity of the *Audit Insure™* policy.
- Once the audit is complete, we require a Tax Invoice made out to QBE; WIPs where the fees are over \$1,000; plus a copy of the final letter from the relevant government agency. QBE may require additional documents to access the claim.
- Where 'audits' are long dated, progress payments can be made.

QBE has an excellent track record in paying claims, however from time to time, claims arise that are subject to further questioning, which can delay the settlement process or are ultimately declined as a result of the application of a policy exclusion.

Over the last 10 years, QBE has encountered a number of claim difficulties where accountancy firm clients have been encouraged to sign-up for insurance cover with the knowledge that circumstances have emerged that will lead to an audit occurring, i.e., a larger than usual GST or tax refund or tax loss; a significant capital gain event; clients where the relevant government agency has already communicated their intent to investigate their affairs; company / phoenix restructuring; clients identified as audit targets as a result of a practice audit; etc.

In one case, a partner signed up just 12 of his clients and 10 were shortly after subjected to audits, with most claims rejected due to circumstances like those outlined above. Sadly, these clients were left with an unexpected claim outcome and the accountancy firm with a number of uneasy client relationships.

Thankfully, the 1,000's of paid claims and positive outcomes far outweighs the smaller number of problematic claims.

How do clients sign up?

Since the launch of the original product 10 years ago, a number of variations have been trialled to maximise client take-up, whilst at the same time relieving accountancy firms of the need to be involved in the ongoing administration process or incurring handling costs such as stationary, receipting, banking, payments, personnel time, client support, etc.

Most accountancy firms have a range of client service delivery options, i.e., annual contracts or ad-hoc billing etc. Having a standardised approach simply won't deliver maximum client take-up.

Where clients have annual service contracts, audit insurance can be incorporated into these contracts, thus ensuring these clients are automatically insured. In other cases, your firm may hold client authority to manage their affairs; so again, these clients can be automatically included.

With other clients on ad-hoc service arrangements, some accountancy firms apply an 'opt-out' approach i.e., 'we're adding you (the client) onto our *Audit Insure*[™] policy and will bill you, however, if you decide to 'opt-out', you will be fully accountable for our fees, if you are audited.'

Some accountancy firms have applied a set \$10,000 'shared' Sum Insured for each client group and billed their clients accordingly, with the option to increase the 'shared' Sum Insured on request.

Other accountancy firms leave it entirely up to their clients if they want to 'opt-in'.

I'll discuss the various options and provide relevant support documentation and instructions.

The process involves:

- ➔ Your firm needs to complete an Application Form, so that your insurance broker can organise your *Audit Insure*[™] policy and the outsourced administration support.
- ➔ Your firm communicates with clients, using marketing content UAPL provides. Clients can sign-up 'offline' (via a Client Acceptance Form) or 'online'.
- ➔ Once documentation and payment is received, a combined Tax Invoice / Insurance Certificate is emailed to your client.
- ➔ At month end, a monthly report of client sign-up activity will be emailed to your firm, plus your insurance broker will organise to have those clients endorsed onto your *Audit Insure*[™] policy.
- ➔ Prior to the expiry of the initial 12 month period, your clients will be invited to renew.

What's the likely client take-up?

That really depends on the structure of the client relationship and how closely clients follow advice provided by their accountancy firm.

Where the accountancy firm has an annual service contract, there's 100% take-up.

An increasing number of accountancy firms are incorporating audit insurance cover as part of their initial or annual engagement letter with very high take-up.

Where accountancy firms offer as an 'opt in', it really comes down to the client relationship. Most accountancy firms achieve a 30-50%+ take-up and with further client interaction, can increase this level to 70%+

Take-up amongst salary and wage earners that aren't part of a 'client group' is very low. The accountancy firm is better to charge an extra \$10 to \$20 to manage the return lodgement and self insure any costs should an audit occur.

We have an existing policy, other than *Audit Insure™*. How can we swap over and benefit from the wider scope of cover, lower premiums, and less handling costs?

That's easy! After setting up an *Audit Insure™* policy, provide your insurance broker with the existing client and cover data required and I'll establish on our system, at no cost to your firm. Plus, there are no ongoing costs. The ongoing renewal process is managed on your firm's behalf.

Plus your firm and clients immediately benefit from the wider scope of cover and reduced premium costs!

Next steps

If keen to pursue, please contact me as follows.

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