

**GS 00XX**  
(month 2008)

**Guidance Statement GS XX**  
*Financial & Compliance  
Audits of Self Managed  
Superannuation Funds*

Issued by the **Auditing and Assurance Standards Board**

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 00X *Financial and Compliance Audits of Self Managed Superannuation Funds* as set out in paragraphs 1 to XXX and Appendices X to XX, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory details and suggested procedures on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new mandatory requirements.

Dated XX Month 2008

M H Kelsall  
Chairman - AUASB

## GUIDANCE STATEMENT GS 00XX

### *Financial and Compliance Audits of Self Managed Superannuation Funds*

#### Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors conducting:
  - (a) the financial audit of a Self Managed Superannuation Fund's (SMSFs) Special Purpose Financial Report, comprising a Statement of Financial Position and Operating Statement and the notes attached to those statements (the SMSF Financial Report); and
  - (b) the compliance audit of a SMSF's compliance with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations)<sup>1</sup>.

#### Issuance Date

- 2 This Guidance Statement is issued on XX Month 2008 by the AUASB and replaces the specific guidance relating to the audit of SMSFs contained in Audit Guide No. 4 *The Audit of Superannuation Funds* (2004 Edition) and *The Audit of Superannuation Funds 2005* Supplement to Audit Guide No. 4.

#### Introduction

- 3 SMSFs, by statutory definition, are superannuation funds which are governed by a trust deed and governing rules and have:
  - fewer than five members;
  - all trustees/trustee directors as members of the fund;

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<sup>1</sup> This Guidance Statement does not apply to Australian Prudential Regulation Authority (APRA) regulated superannuation entities. However auditor of funds known as small APRA funds may find the guidance provided useful for the designing, planning, conduct of their audits.

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- all members of the fund as trustees/trustee directors;
- no trustees receiving remuneration from the fund; and
- no members being employees of another member, unless they are related.

SMSFs complying with the definition are eligible for taxation concessions and are regulated by the Australian Taxation Office (ATO).

4 The SIS Act (subsection 113(1)) requires SMSFs to be audited each financial year by an approved auditor, who reports to the Trustees in the “approved form”, as issued and updated from time to time, by the ATO. The approved form of the auditor’s report includes opinions under two sections, Part A: financial report and Part B: compliance report.

5 Approved auditors must complete both the financial audit and the compliance audit and sign the auditor’s report before a SMSF can submit its annual return, which includes its tax return. SMSFs are required to submit an annual return in order to maintain their complying status and retain the taxation concessions extended to complying superannuation funds.

6 This Guidance Statement has been developed to identify, clarify and summarise the responsibilities the auditor has with respect to conducting SMSF audit engagements, and to provide guidance to the auditor on additional factors which the auditor may consider when planning, conducting and reporting on the financial and compliance audits of a SMSF.

7 This Guidance Statement does not extend the responsibilities of the auditor beyond those which are imposed by the SIS Act, SIS Regulations, Auditing Standards (ASAs) or Standards on Assurance Engagements (ASAEs).

8 This Guidance Statement comprises:

- a general section which deals with matters common to both the financial and compliance audit;
- Part A dealing with the financial audit; and
- Part B dealing with the compliance audit.

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- 9 This Guidance Statement is to be read in conjunction with and is not a substitute for referring to the requirements and guidance contained in:
- a) the Auditing Standards (ASAs), in which references to the “auditor” includes an auditor conducting financial audits; and
  - b) the Standards on Assurance Engagements (ASAEs), specifically ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASAE 3100 *Compliance Engagements*, in which references to the “assurance practitioner” include an auditor conducting compliance audits.
- 10 This Guidance Statement does not apply to Australian Prudential Regulation Authority (APRA) regulated superannuation entities<sup>2</sup>.

**Regulatory Requirements**

- 11 The trustees of a SMSF are required under Section 112 of the SIS Act and SIS Regulation 8.01 to ensure that, in each year of income, a Statement of Financial Position and an Operating Statement of the fund are prepared and under Section 113 an approved auditor is appointed. Approved auditors under the SIS Regulations (Reg. 1.04) are required to be an individual who is either:
- a registered company auditor;
  - a member of CPA Australia Ltd (CPA Ltd), The Institute of Chartered Accountants (ICAA) or the National Institute of Accountants (NIA);
  - a fellow or member of the Association of Taxation and Management Accountants (ATMA);
  - a fellow of the National Tax and Accountants Association Ltd (NTAA); or
  - the Auditor-General of the Commonwealth, a State or a Territory.

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<sup>2</sup> Auditors of APRA regulated superannuation entities, particularly auditors of those funds known as small APRA funds, may find this GS useful in designing, planning and executing their audits but it does not specifically relate to APRA funds.

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- 12 The auditor is required under the SIS Act to:
- provide an auditor's report to the Trustees in the approved form, being the Self Managed Superannuation Fund Independent Auditor's Report<sup>3</sup> issued by the ATO
  - report in writing to the Trustees any contraventions of the SIS Act or SIS Regulations (SIS Act - Section 129);
  - report in writing to the ATO any material breaches of the SIS Act or SIS Regulations in the year of income, and any other contravention specified;
  - report in writing to the Trustees and the ATO as soon as practicable if the auditor forms the opinion that the SMSF is currently in or is likely to fall into an unsatisfactory financial position (SIS Act - Section 130).

**Auditors' Responsibilities**

- 13 The approved form of the auditor's report as issued by the ATO is divided into two parts:
- Part A - Financial Report which requires the auditor to state that the audit has been performed in accordance with Australian Auditing Standards, with the relevant auditing standards for financial audits being the ASAs; and
  - In Part B - Compliance, requires the auditor to state that the auditor has conducted tests in accordance with Australian Auditing Standards, with the relevant standards for compliance audits being the ASAEs.
- 14 This Guidance Statement assists auditors conduct the financial audit in accordance with the ASAs and in conducting the compliance audit in accordance with the ASAEs.

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<sup>3</sup> *Self managed superannuation fund independent auditor's report* (NAT11446.07.2007) is available from the ATO's website and provides the reference point for reporting the audit findings.

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*Conduct the financial audit in accordance with ASAs*

- 15 Whilst all of the ASAs are applicable to the audit of a SMSF, the key ASAs which are relevant to the conduct of the financial audit of a SMSF are listed below:
- (a) ASA 200 *Objective and General Principles Governing an Audit of a Financial Report* requires the auditor to:
    - (i) comply with the relevant ethical requirements relating to audit engagements;
    - (ii) comply with each of the Auditing Standards relevant to the audit;
    - (iii) plan and perform an audit by exercising professional judgement;
    - (iv) plan and perform an audit with an attitude of professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated; and
    - (v) conduct the audit with the aim of obtaining reasonable assurance that the report taken as a whole is free from material misstatement.
  - (b) ASA 210 *Terms of Audit Engagements* requires the terms of the audit engagement to be agreed in writing, ordinarily by way of an audit engagement letter, which need not be sent each period unless the terms of the engagement change.
  - (c) ASA 220 *Quality Control for Audits of Historical Financial Information* requires the engagement partner to consider whether the audit team have complied with the relevant ethical requirements which ordinarily include the fundamental principles of professional ethics:
    - (i) integrity;
    - (ii) objectivity;
    - (iii) professional competence and due care;
    - (iv) confidentiality; and

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- (v) professional behaviour.

The engagement partner also forms a conclusion on compliance with the independence requirements. Further, the engagement partner is required to ascertain whether the appointment and acceptance of the engagement is acceptable, the audit staff are appropriately supervised and that there is sufficient appropriate audit evidence to form a conclusion and issue an auditor's report.

- (d) ASA 230 *Audit Documentation* requires preparation of documentation:
- (i) that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was conducted in accordance with the ASAs and applicable legal and regulatory requirements;
  - (ii) so that another auditor, without any previous experience of the audit, would be able to understand the procedures performed, results obtained and the audit conclusion reached; and
  - (iii) to be assembled into a file on a timely basis upon completion of the audit.
- (e) ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report* requires the auditor, in planning and performing, the audit to reduce the audit risk of a material misstatements in the financial report due to fraud, to an acceptably low level<sup>4</sup>.
- (f) ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* requires the auditor to obtain a general understanding of the legal and regulatory environment applicable to the entity and recognise that non-compliance may materially impact upon the financial report.

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<sup>4</sup> Due to the limited number of people involved in the operation of the SMSF and lack of opportunity to segregate duties, trustees have an ability to override controls and auditors may wish to consider this in assessing consequential fraud risk. SMSF are not afforded the same level of protection non-SMSF funds are provided in that the Government can not levy other funds and compensate the members for losses incurred due to fraud as it is for non-SMSF funds regulated by the APRA..

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- (g) *ASA 260 Communication of Audit Matters with Those Charged with Governance* requires the auditor to identify those charged with governance, usually the trustees of the SMSF, and communicate with them matters of interest that arise from the audit on a timely basis.
- (h) *ASA 300 Planning an Audit of a Financial Report* requires the auditor to establish an overall audit strategy and detailed audit plan to guide the nature, timing and extent of audit procedures in obtaining sufficient and appropriate audit evidence.
- (i) *ASA 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* requires the auditor to obtain an understanding of the entity and its environment, including its internal controls sufficient to identify and assess the risks of material misstatement of the financial report and to design and perform further audit procedures.
- (j) *ASA 320 Materiality and Audit Adjustments* requires the auditor to consider materiality when determining the nature, timing and extent of audit procedures and in evaluating the effect of misstatements.
- (k) *ASA 330 The Auditor's Procedures in Response to Assessed Risks* requires the auditor to plan and implement further appropriate audit procedures to respond to the assessed risks in order to reduce the risk of material misstatements to an acceptably low level. Further, audit procedures will include substantive procedures and may include test of controls to obtain sufficient appropriate audit evidence to reduce to an acceptably low level the risk of material misstatement in the financial report.
- (l) *ASA 402 Audit Considerations Relating to Entities Using Service Organisations* requires the auditor to consider whether the SMSF's use of a service organisation is significant to the SMSF and its audit and how using a service organisation affects the SMSF's internal controls. Further, if the service organisation is significant to the SMSF, it requires the auditor to gain an understanding of the service organisation and its environment so as to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risk. It also requires an assessment and evaluation of the

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appropriateness of any audit reports and control reports received from the service organisation's auditors.

- (m) *ASA 500 Audit Evidence* requires the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. It requires the auditor to implement procedures to obtain evidence about the accuracy and completeness of the audit evidence as well as use assertions for classes of transactions, account balances and disclosures.
- (n) *ASA 505 External Confirmations* requires the auditor to request external confirmations where they are necessary to obtain sufficient appropriate audit evidence at the assertion level.
- (o) *ASA 510 Initial Engagements – Opening Balances* requires the auditor to obtain sufficient appropriate audit evidence that the opening balances do not contain material misstatements, the prior period closing balances have been correctly stated and brought forward and that appropriate accounting policies are consistently applied.
- (p) *ASA 520 Analytical Procedures* requires the auditor to utilise analytical procedures as risk assessment procedures to obtain an understanding of the SMSF and its environment and in the overall review at the end of the audit.
- (q) *ASA 560 Subsequent Events* requires the auditor to perform audit procedures to obtain sufficient and appropriate audit evidence that all events up to the date of the auditor's report have been identified, and if material, are properly disclosed and accounted for.
- (r) *ASA 580 Management Representations* requires the auditor to obtain acknowledgement from management, which are taken to be the trustees in a SMSF, that they are responsible for the fair presentation of the financial report in accordance with the applicable reporting framework and to document in writing any verbal representations from management.
- (s) *ASA 701 Modifications to the Auditor's Report* requires the auditor to modify the auditor's report when it is not possible to issue an unqualified audit opinion. The

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circumstances may dictate due to a conflict, a significant uncertainty, a limitation of scope, a lack of sufficient and appropriate audit evidence that it is not possible to issue an unqualified audit opinion. In these circumstances ASA 701 requires the auditor to issue either a qualified audit opinion, a disclaimer of opinion or an adverse opinion. In situations where the matter is not so material it is possible to issue an emphasis of matter to highlight the issue.

- (t) ASA 800 *The Auditor's Report on Special Purpose Audit Engagements* specifies the form of the auditor's report which is reflected in approved form report issued by the ATO.

*Conduct the compliance audit in accordance with ASAEs*

16 The ASAEs which are relevant to the SMSF compliance audit are listed below:

- (a) ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* requires the auditor to comply with the ASAEs in conducting a compliance audit as well as the appropriate ethical requirements, quality control requirements, acceptance and engagement conditions, planning and performance criteria and the relevant audit evidence requirements to express an assurance opinion.
- (b) ASAE 3100 *Compliance Engagements* requires the auditor to form a conclusion on compliance with the relevant criteria, taken to be the legislative requirements as specified by the ATO in the approved form auditor's report, and express an opinion using the overall compliance and assurance framework outlined in ASAE 3000.

As noted in the ASAEs, relevant parts of the ASAs are also useful in the conduct of the compliance audit.

**Preliminary Engagement Activities**

17 Prior to commencing the audit, the auditor performs a number of preliminary tasks to gain confidence that undertaking the audit is appropriate from a client and ethical point of view. ASA 300 requires the auditor, prior to beginning an audit engagement, to:

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- perform procedures regarding the acceptance and continuance of the client relationship and the specific audit engagement;
- evaluate compliance with relevant ethical requirements relating to the audit engagement, including independence; and
- establish an understanding of the terms of engagement.

These procedures are outlined below.

*Ethical Requirements*

- 18 In accordance with ASA 200 and ASAE 3000 the auditor is required to comply with relevant ethical requirements relating to audit engagements, which includes the applicable code of conduct of a professional accounting body<sup>5</sup>.
- 19 ASA 220 *Quality Control for the Audits of Historical Financial Information* requires that the auditor consider the relevant ethical principles relating to the engagement to be undertaken and these include:
- (a) integrity;
  - (b) objectivity;
  - (c) professional competence and due care;
  - (d) confidentiality; and
  - (e) professional behaviour<sup>6 7</sup>
- 20 Under ASA 220 and ASAE 3100, the auditor only accepts an engagement when the auditor is satisfied that the relevant ethical

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<sup>5</sup> In Australia, the applicable code of conduct of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional Ethics Standards Board. This code of conduct has been adopted by CPA Australia Ltd, National Institute of Accountants and The Institute of Chartered Accountants in Australia and is applicable to their members.

<sup>6</sup> APES 110 lists the fundamental ethical principles as integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. APES 110 states that the concept of independence is fundamental to compliance with the principles of integrity and objectivity

<sup>7</sup> APES 110 *Code of Ethics for Professional Accountants*, Section 290

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requirements are met. This includes ensuring that the auditor and personnel conducting the audit collectively possess the necessary professional competencies and capabilities to conduct the audit and meet the applicable independence requirements.

- 21 Capabilities and competence are developed through a variety of methods, including professional education, continuing professional development - including training, work experience and coaching and mentoring by more experienced staff. Auditors comply with their professional body's continuing education and professional development requirements which will assist them to maintain the competence, knowledge, skills and capabilities to perform SMSF audits satisfactorily.
- 22 *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report* requires the auditor to obtain a general understanding of the legal and regulatory environment applicable to the entity. In order to meet this requirement auditors possess a sound and current knowledge of superannuation legislation including the SIS Act and SIS Regulations and the relevant taxation laws as well as possess a good understanding of the operations of a SMSF.

*Independence*

- 23 ASA 220 which applies to the financial audit of an SMSF requires the engagement partner to form a conclusion on compliance with the independence requirements applying to the audit engagement which are contained in the applicable code of conduct of the professional accounting bodies<sup>8</sup> for the financial audit. This requirement is mirrored in ASAE 3100 *Compliance Engagements* for compliance audits. ASAE 3100 requires compliance with the fundamental ethical principles of which the concept of independence is crucial.
- 24 The applicable code of conduct of a professional accounting body provides a framework of principles that auditors and members of audit teams use to identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant:
- (a) identify and apply safeguards to eliminate the threats; or

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<sup>8</sup> In Australia, the applicable code of conduct of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*.

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(b) reduce them to an acceptable level,

such that independence of mind and independence in appearance are not compromised.

25 When assessing independence the auditor firstly identifies the threats to independence. The threats to independence in an SMSF audit engagement may include:

- *Self-interest Threat* - when a firm or a member of the audit team could benefit from a financial interest in, or other self-interest conflict with, an audit client. For example, this could arise if the auditor is a trustee/member of the SMSF or the SMSF is the sole client or a significant client of the firm.
- *Self Review Threat* - when any product such as a set of financial accounts, or a judgement of a previous engagement needs to be re-evaluated in reaching conclusions on the audit engagement so that the auditor is reviewing their own work. For example where the auditor is auditing the financial reports which they prepared.
- *Advocacy Threat* - this is when a firm, or member of the audit team, promotes, or may be perceived to promote an audit client's position to the point that objectivity may, or be perceived to be, compromised.
- *Familiarity Threat* - this is when by virtue of a close relationship with an audit client, its directors, officers or employees, the firm or a member of the audit team becomes too sympathetic to the client's interests. For example, when a close family member of the auditor is a trustee of the fund or the accounting firm that prepared the SMSF accounts.
- *Intimidation Threat* - where a member of the team is deterred from acting objectively by threats, actual or perceived, from the Trustees of the SMSF or the directors, officers or employees of a related entity of the Trustees. For example, a threat of replacement over a disagreement with the application of an accounting principle or the loss of other general accounting or taxation work if the auditor's opinion is modified or a contravention reported to the ATO.

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- 26 The second step is to evaluate the significance of the threats to independence.
- 27 The third step is to identify the safeguards that are available against the threats to independence in a SMSF audit engagement. These include:
- those created by the profession, legislation or regulation;
  - those within the SMSF; or
  - those within the firm's own systems and procedures.
- 28 Safeguards created by the profession, legislation or regulation, generally include the following:
- educational, training and experience requirements for entry into the profession;
  - continuing education requirements;
  - professional standards, monitoring and disciplinary processes;
  - external review of a firm's quality control system;
  - legislation covering the independence requirements of the firm; and
  - recommendations on independence from relevant regulators.
- 29 Safeguards within the SMSF may be limited, as by its very nature, a SMSF is a small entity with limited scope for segregation of duties. Hence reliance on internal safeguards may not be possible and the auditor ordinarily relies on the safeguards created by the profession, legislation and regulation and those safeguards created by internal systems within the auditor's firm to enhance independence.
- 30 In evaluating threats to independence and considering applicable safeguards, the auditor considers the nature of the SMSF and the relationships the auditor and the audit team, if any, have with the SMSF's trustees, financial adviser, accountants and actuaries, and any other person or organisation involved with the management or operation of the SMSF.

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- 31 Safeguards that auditors may apply to manage identified threats to independence may include:
- (a) prohibiting the holding of direct, or material indirect, financial interests by the auditor in joint venture investments of the SMSF;
  - (b) removal from the SMSF audit team of any personnel with a close relationship with the Trustees of the SMSF or relatives of the trustees; or
  - (c) If the audit firm is unduly reliant on the audit fees from a particular accounting firm, diversifying the client base to spread the revenue base so that the potential for undue influence is removed.
- 32 In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the audit engagement.
- 33 A number of examples of independence and the threats to independence are included in Appendix 1

*Engagement, Acceptance and Continuance*

*Agree the terms of engagement*

- 34 Prior to conducting the audit, the auditor agrees the objectives, terms and scope of the audit engagement with the Trustees of the SMSF. ASA 210 *Terms of Engagement* requires the terms of engagement to be documented in writing. This is usually in the form of an engagement letter.
- 35 Legislation requires the trustee to appoint the auditor. Ideally, the trustee is involved in the selection and appointment of the auditor prior to the audit commencing. However, some accountants or superannuation services may assist with the sourcing and recruitment of an auditor for the SMSF. In these cases, the trustee, ordinarily, endeavours to approve the appointment in writing before the audit commences usually by signing the engagement letter or indicating their approval in a trustee minute.
- 36 ASA 210 provides guidance on the matters included in an engagement letter. For an SMSF audit engagement, the engagement letter ordinarily:

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- describes the objective and scope of the financial and compliance audits;
- details any applicable legislative requirements, including SIS Act and SIS Regulations, that the auditor will be auditing.
- identifies the responsibilities of the Trustees, including
  - (a) maintaining an adequate internal control structure;
  - (b) preparing the SMSF's financial report;
  - (c) keeping the records of the SMSF secure; and
  - (d) conducting the affairs of the fund in a complying manner with all relevant SIS provisions throughout the year;
- sets out the reporting requirements of the auditor, including those imposed by section 129 and section 130 of the SIS Act.

37 ASA 210 does not require engagement letters to be issued every year. On recurring audits, auditors review their appointment each subsequent period and the terms of the engagement are revised and re-confirmed as appropriate.

38 A draft engagement letter is attached as Appendix 1.

*Obtain ethical clearance from previous auditor*

39 For an initial audit, where there has been a change of auditor, the auditor communicates with the previous auditor in accordance with the relevant ethical requirements<sup>9</sup> to ensure that there is no impediment or restriction in accepting and conducting the audit. The new auditor may need to seek permission from the Trustees to communicate with the previous auditor.

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<sup>9</sup> In Australia, the applicable code of conduct of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*

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*Professional judgement and scepticism*

- 40 ASA 200 *Objective and General Principles Governing an Audit of A Financial Report* requires the auditor to plan and perform an audit exercising professional judgement, and with an attitude of professional scepticism.
- *Professional judgement* typically emanates from the auditor's expertise, experience, knowledge and training. When exercising professional judgement, the auditor maintains independence and objectivity and adopts an attitude of professional scepticism in order to achieve the audit objectives.
  - *Professional scepticism* requires the auditor to maintain a questioning mind as to the validity of audit evidence presented and representations of the Trustees. The auditor remains alert to contradictory information or information that brings into question the validity of the evidence presented.

*Quality Control*

- 41 ASA 220 and ASAE 3100 require the auditor to implement procedures to ensure quality control systems are applied to both the financial and compliance audit engagements including:
- (a) leadership responsibility for overall quality on the financial and compliance engagement;
  - (b) consideration of whether members of the engagement team have complied with relevant ethical requirements;
  - (c) forming a conclusion on compliance with relevant independence requirements
  - (d) acceptance and continuance of client relationships and specific audit engagements have been followed and that conclusions reached are appropriate and have been documented;
  - (e) assignment of audit engagement teams which possess the appropriate capabilities, competence and time to perform the engagements in accordance with AUASB Standards and regulatory and legal requirements;

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- (f) performance of the audit engagement performance in accordance with AUASB Standards and regulatory and legal requirements; and
  - (g) adequate monitoring of quality.
- 42 The auditor ordinarily ensures that audit staff are properly supervised and their audit work is reviewed to ensure that the audit procedures have been performed appropriately to assist the auditor form the appropriate opinion. Likewise, the auditor delegates appropriate tasks to audit staff commensurate with their skill, experience and training. Staffing requirements and supervision needs are also incorporated into the audit plan.

**Planning**

- 43 Planning an audit involves a number of closely related procedures which include:
- obtaining a preliminary understanding of the SMSF;
  - establishing a preliminary level of materiality;
  - establishing the overall audit strategy for the audit;
  - developing and documenting an audit plan based on the overall strategy;
  - modifying the audit strategy as circumstances unfold and audit evidence indicates the need for further procedures
  - planning the nature, timing and extent of direction, supervision and review of work performed by team members; and
  - implementing appropriate procedures for initial audit engagements.
- 44 ASA 300 *Planning an Audit of a Financial Report* requires the auditor to plan the financial audit so that it may be conducted in an effective manner in order to reduce audit risk to an acceptably low

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level. ASAE 3100 requires the auditor to plan the compliance audit so that it will be performed effectively<sup>10</sup>.

*Obtaining a preliminary understanding of the SMSF*

45 In conducting an SMSF audit, the auditor obtains a preliminary understanding of the SMSF, trust structure, investments and liabilities, and personnel involved in the management and trusteeship of the fund, sufficient to identify and assess the risks of the financial report being materially misstated or the SMSF failing to comply with the SIS Act and SIS Regulations and sufficient to design and perform further evidence gathering procedures. Importantly, the preliminary understanding provides the auditor with a frame of reference for exercising professional judgement throughout the financial and compliance audit engagement.

46 Adequate planning may:

- help devote appropriate attention to important areas of the audit engagement,
- identify potential problems on a timely basis;
- assist organisation and management of the audit engagement in order for it to be performed in an effective manner;
- assist the auditor to properly assign work to other audit team members, and facilitates their direction and supervision and the review of their work; and
- assist, where applicable, the coordination of work performed by other auditors, actuaries and experts.

47 The nature and extent of planning activities will vary according to:

- the size and complexity of the SMSF;
- the level of trustee involvement and knowledge of the operations of the SMSF;
- investments held;

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<sup>10</sup> The planning procedures relevant to an audit engagement are contained in Auditing Standard ASA 300 *Planning an Audit of a Financial Report*, and may be helpful in determining planning procedures applicable to an assurance engagement

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- potential compliance issues; and
- the auditor's previous experience, if any, with the SMSF.

48 The audit plan is reviewed annually to ensure that it is updated to reflect the current circumstances of the SMSF.

*Establishing a preliminary level of materiality and overall materiality*

49 An auditor's consideration of materiality is a matter of professional judgement, and is affected by the auditor's perception of the financial information needs of users of the financial report. If an applicable financial reporting framework contains a definition of materiality, it provides a frame of reference for the auditor when determining materiality for planning and performing the audit.

50 ASA 320 *Materiality and Audit Adjustments* requires the auditor establish a preliminary level of materiality to establish an appropriate quantitative materiality level from which to plan the risk assessment procedures and further audit procedures at the assertion level and selection strategies upon. The SMSF auditor may set the materiality benchmarks according to:

- the results of the analytical review conducted;
- the levels used in a previous or similar audit engagements after considering prior year financial results, year-to-date results and balances;
- any materiality thresholds specified by the ATO;
- or other method determined by the auditor.

This preliminary materiality level may be in dollar terms or percentage terms and provides the foundation upon which to base a more formal materiality level further into the audit.

51 Materiality differs in nature between a financial audit and a compliance audit and is discussed separately within both Part A and Part B of this Guidance Statement. For the discussion of materiality with respect to the financial audit see paragraph XXX and for the compliance audit see paragraph XXX.

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*Overall audit strategy*

- 52 ASA 300 requires the auditor to establish the overall audit strategy for the financial audit and, ordinarily, the overall audit strategy for the compliance audit as well.
- 53 The overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. For a SMSF audit the scope, timing and reporting format is largely predetermined by the SIS Act and SIS Regulations and the ATO as regulator. Furthermore, legislation dictates the form the auditor's report takes and the manner of formal communication with the Trustees.
- 54 Whilst the scope and timing of the audit is predetermined, the auditor sets the strategy for the nature and timing of the audit procedures to be implemented to assist with forming the audit opinion. The audit strategy is based on the results of the preliminary work performed and the auditor's experience gained on any previous audit engagements with the SMSF. The audit strategy includes determination of the preliminary level of materiality to be applied in the audit and testing procedures that may be applied based on the auditor's existing knowledge of the SMSF, resources required for the audit and supervision of the audit team. .
- 55 As SMSFs are small entities, establishing the audit strategy need not be a complex or time-consuming exercise. The complexity of the audit strategy will vary with the size and complexity of the entity<sup>11</sup>.

*Develop and document the audit plan*

- 56 ASA 300 requires the auditor to develop and document the audit plan to record the key decisions and the nature, timing and extent of risk assessment procedures to be undertaken in order to reduce audit risk to an acceptably low level<sup>12</sup>. The form and extent of the audit plan depends on the complexity of the SMSF and the circumstances of the specific audit engagement. The length and detail is often proportional to the complexity and size of the SMSF. The audit plan documents the procedures proposed, undertaken and evidences work performed to facilitate proper review and supervision of any staff working on the audit as well as assisting any external quality reviews.

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<sup>11</sup> ASA 300 *Planning an Audit of a Financial Report* provides further guidance on establishing the audit strategy for smaller entities. See paragraph 17 for further guidance.

<sup>12</sup> Audit risk is the risk that a material misstatement will occur

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- 57 The audit plan is dynamic and is required to be updated if necessary during the course of the audit. Audit evidence obtained may trigger a need for further audit procedures and these need to be documented accordingly. .
- 58 The audit plan for an SMSF often takes the form of a checklist which assists in maintaining quality controls for the engagement as required by ASA 220.
- 59 The audit plan details the planned nature, timing and extent of the audit procedures to be undertaken in the conduct of the audit. Standardised checklists are available but need to be tailored specifically to reflect the particular circumstances and nature of the SMSF and the audit evidence available. If further audit procedures are conducted these need to be documented by modifying the audit plan.
- 60 A sample financial checklist is attached as Appendix 4.

*Risk assessment procedures*

- 61 ASA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* requires the auditor to obtain an understanding of the SMSF and its environment. In doing so, the auditor makes enquiries of the SMSF's Trustees or management to gain an understanding of the SMSF's operations, trustee arrangements and investments in order to understand what kind of reporting, classifications and disclosure the auditor could expect in the financial report, and, importantly where to focus the auditor's attention.
- 62 ASA 315 requires the auditor to examine the internal controls of the SMSF and document their understanding of the control environment. Given SMSFs are small entities, often with a close and related membership with control being vested in a few individuals and little or no opportunity for implementing proper segregation of duties, the auditor is likely to assess the SMSF internal controls as ineffective with the auditor unable to rely on the effectiveness of the internal control mechanisms to reduce substantive testing. Hence, the auditor ordinarily conducts testing that is highly or purely substantive including procedures designed to compensate for a lack of division of duties.

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*Analytical procedures*

- 63 ASA 520 *Analytical Procedures* requires the auditor to utilise analytical procedures as risk assessment procedures to obtain an understanding of the SMSF and its environment and in the overall review at the end of the audit.
- 64 Analytical review procedures can be utilised to compare and contrast how the SMSF has performed over two or more consecutive reporting periods. Common analytical procedures include comparing balances, calculating ratios and trend analysis and noting major differences, inconsistencies or other deviations, with further investigation being warranted where the difference is not easily understood, explained sufficiently by management or deviates from predicted amounts.
- 65 Ordinarily, an auditor reviews the movement in the member balances from one period to another in the preliminary planning phase of the audit. This process identifies the movement in the balance from contributions and investment earnings as well as any reduction in balance due to expenses such as fees, charges or insurance premiums deducted. The auditor ordinarily assesses whether the balance is reasonable given the overall circumstances of the SMSF.

**Audit Evidence**

- 66 Audit evidence means all the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based, and includes the information contained in the accounting records underlying the financial report and other information. For an SMSF this includes financial reports, Trustee minutes, investment holdings, contracts of sale, bank statements, invoices, receipts, titles, legal advice, correspondence, emails, tax returns, fund returns, deposit book and cheque butts etc. Audit evidence, which is cumulative in nature, includes audit evidence obtained from audit procedures performed during the course of the audit and may include audit evidence obtained from previous audits and other sources.
- 67 ASA 500 *Audit Evidence* and ASAE 3100 require the auditor in the conduct of the financial and compliance audit to obtain sufficient appropriate evidence on which to base their opinion.

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*Sufficient evidence*

- 68 Sufficiency is the measure of the quantity of evidence. Audit evidence with respect to a SMSF's financial audit may be gathered through inquiry and observation, tests of controls, substantive testing and representations received from the Trustees or management.
- 69 The amount of evidence from each source which is deemed by the auditor to constitute sufficient, reliable evidence to reduce assurance engagement risk to an acceptable level is a matter for the auditor's professional judgement.
- 70 Sufficient evidence for the compliance audit may be collected by inquiry and observation, substantive testing and representations received from the Trustees or management. With considerable overlap between the financial and compliance audits, the vast bulk of the evidence will be collected during the financial audit. How useful this evidence is for the compliance audit is a matter for professional judgement. In all likelihood, the auditor supplements the evidence collected in the financial audit with further evidence specifically related to compliance issues to assist in forming the compliance opinion.

*Appropriateness of audit evidence*

- 71 Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The auditor ordinarily considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The auditor uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the audit opinion.

*Audit procedures to obtain evidence*

- 72 Under ASA 330 *The Auditor's Procedures in Response to Assessed Risks*, the auditor is required to respond to the assessed risks and plan and design and perform further substantive audit procedures to respond to the assessed risks. Using professional judgement, the auditor determines the nature, timing and extent of the procedures to reduce the risk of material misstatements occurring at the assertion level. Under ASA 330, the auditor is required to design and perform

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substantive audit procedures for material classes of transactions, account balances and disclosures to obtain sufficient appropriate audit evidence.

*Inspection, observation & enquiry*

73 ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence and they include:

- *Inspection:* consists of examining records or documents, whether internal or external, in paper form, electronic form, or other media. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.

Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a share or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence relevant to the SMSF's application of accounting policies, such as revenue recognition.

- *Inspection of tangible assets:* consists of physical examination of the assets. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets.
- *Observation:* consists of looking at a process or procedure being performed by others. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed.
- *Enquiry:* consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity. Enquiry is an audit procedure that is used extensively throughout the audit and often is complementary to performing other audit procedures. Enquiries may range from formal written enquiries to

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informal oral enquiries. Evaluating responses to enquiries is an integral part of the enquiry process.

- 74 Responses to enquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to enquiries provide a basis for the auditor to modify or perform additional audit procedures.
- 75 Enquiry alone may not provide sufficient audit evidence to detect a material misstatement at the assertion level nor is it ordinarily sufficient to test the operating effectiveness of controls and hence the auditor performs further audit procedures to obtain sufficient appropriate audit evidence.
- 76 ASA 530 *Audit Sampling and Other Means of Testing* requires the auditor to determine the appropriate means for selecting items for testing. Due to the specific nature of SMSFs and limited internal control environment, the auditor may decide on a highly substantive method of testing. This may involve examining the entire population of items that make up a class of transactions or account balance when the population constitutes a small number of large value items or when there is a significant risk and other means do not provide sufficient appropriate audit evidence. Where a superannuation fund has relatively few members and a limited number of transactions, procedures may be performed on a 100% basis.
- 77 In respect of some matters, the auditor obtains written representations from trustees and management to confirm responses to oral enquiries. For example, the auditor obtains written representations from trustees and/or management on material matters when other sufficient appropriate audit evidence cannot reasonably be expected to exist or when the other audit evidence obtained is of a lower quality<sup>13</sup>.

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<sup>13</sup> See ASA 580 *Management Representations*, for further requirements and explanatory guidance on written representations.

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*Confirmation*

- 78 Confirmation, which is a specific type of enquiry, is the process of obtaining a representation of information or of an existing condition directly from a third party. For example, the auditor may seek direct confirmation of bank accounts and balances with the SMSF's bank or banks. Confirmations are frequently used in relation to account balances and their components<sup>14</sup>. Confirmation will not be sufficient where services are outsourced as mere confirmation in itself is not sufficient appropriate audit evidence.

*Recalculation*

- 79 Recalculation consists of checking the mathematical accuracy of documents or records or account balances. Recalculation can be performed through the use of information technology or on a spreadsheet by obtaining an electronic file from the entity and using CAATs to check the accuracy of the summarisation of the file. Alternatively, an auditor may manually recalculate account balances from primary documentation to validate the balance.

*Re-performance*

- 80 Re-performance is the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control, either manually or through the use of CAATs, for example, re-performing the calculation of net market movement for a range of listed securities.

*Reliability of evidence*

- 81 An SMSF audit rarely involves the authentication of documentation, nor is the auditor trained as or expected to be an expert in such authentication. However, ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* requires the auditor to consider the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitised or other electronic documents, including consideration of controls over their preparation and maintenance where relevant. The auditor needs to be aware of the potential for fraud or deception in the presentation of audit evidence.

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<sup>14</sup> See ASA 505, for further mandatory requirements and explanatory guidance on confirmations.

## **Audit Documentation**

82 ASA 230 *Audit Documentation* requires the auditor to prepare the audit documentation so as to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) the nature, timing, and extent of the audit procedures performed to comply with Auditing Standards and applicable legal and regulatory requirements;
- (b) the results of the audit procedures and the audit evidence obtained; and
- (c) significant matters arising during the audit and the conclusions reached thereon.

The guidance in ASAE 3100 provides a similar interpretation of sufficient documentation for the compliance audits.

83 The form, content and extent of audit documentation depend on factors such as:

- the nature of the audit procedures to be performed;
- the identified risks of material misstatement;
- the extent of judgement required in performing the work and evaluating the results;
- the significance of the audit evidence obtained;
- the nature and extent of exceptions identified;
- the need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained; and
- the audit methodology and tools used.

It is, however, neither necessary nor practicable to document every matter the auditor considers during the audit.

84 ASA 230 and ASAE 3100 require the auditor to prepare, on a timely basis, audit documentation that provides:

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- (a) a sufficient and appropriate record of the basis for the auditor's report; and
  - (b) evidence that the audit was performed in accordance with AUASB Auditing Standards and applicable legal and regulatory requirements.
- 85 Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared at the time the work is performed is likely to be more accurate than documentation prepared subsequently.

*Nature of Documentation*

- 86 Audit documentation may be recorded on paper, electronically or other media. It includes, for example, audit programs, analyses, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondence (including email) concerning significant matters. Abstracts or copies of the entity's records, for example, significant and specific contracts and agreements, may be included as part of audit documentation if considered appropriate. Audit documentation, however, is not a substitute for the SMSF's accounting records.
- 87 Ordinarily, oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation. The auditor ordinarily seeks written confirmations regarding oral representations.
- 88 The auditor ordinarily completes the assembly of the final audit file on a timely basis after the date of the auditor's report. This facilitates justification and verification that appropriate audit procedures were performed in the audit. Quality reviews, internal and external are more able to be performed quickly and efficiently if a file is constructed in an ordered and logical manner.
- 89 The auditor ordinarily retains all audit documentation for not less than 5 years from the date of the auditor's report.

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*Significant matters*

- 90 The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist the auditor's consideration of the significant matters.
- 91 Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:
- matters that give rise to significant risks (as defined in ASA 315).
  - results of audit procedures indicating that the financial information could be materially misstated; or a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks;
  - circumstances that cause the auditor significant difficulty in applying necessary audit procedures; and
  - findings that could result in a modification to the auditor's report.
- 92 Any breaches of the SIS Act, no matter how small or trivial, need to be reported to the Trustees. Hence, any breaches need to be included in the significant matters section of the audit file. These can then be used to prepare the section 129 report to the Trustees.
- 93 If the auditor has identified information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor ordinarily documents how the auditor addressed the contradiction or inconsistency in forming the final conclusion.

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*Appropriate review/supervision*

- 94 The auditor ordinarily, as part of the normal internal quality control procedures adopted, implements a monitoring and supervision program. Under ASA 220 the auditor implements a process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to enable the firm to obtain reasonable assurance that its system of quality control is operating effectively. Further, this ensures that the engaging partner in a firm review and supervises the work of audit staff on the engagement to ensure that work is of an appropriate standard.

*Confidentiality*

- 95 Under quality control requirements for firms issued by a professional accounting body, firms are required to establish policies and procedures to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation

*Using the work of an Expert*

- 96 Some SMSF audit engagements may include aspects requiring specialised knowledge and skills in the collection and evaluation of sufficient appropriate audit evidence. In these situations, the auditor may decide to use the work of an expert who has the required knowledge and skills to assist the auditor. With the permission of the SMSF's trustees, the auditor may engage property valuers, actuaries, legal professionals or other professionals as the circumstances dictate.
- 97 When planning to use the work of an expert, ASA 620 *Using the Work of an Expert* requires the auditor to evaluate the professional competence and objectivity of the expert. This may be by reference to the experts professional qualifications, licences or membership of appropriate professional body and their experience and reputation in the field in which the auditor is seeking evidence.

**Representations**

- 98 ASA 580 *Management Representation*, ASA 500 and ASAE 3100 require the auditors endeavour to obtain written representations from the Trustee regarding financial and compliance matters. This is generally in the form of a representation letter which can confirm both verbal representations during the course of the audit as well as other matters requiring written confirmation,

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- 99 With respect to financial audit of an SMSF, ASA 580 requires the auditor obtain written representations from the Trustees
- that the Trustees acknowledge responsibility for the fair presentation of the financial report in accordance with the adopted applicable financial reporting framework, and has approved the financial report;
  - on matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist; and
  - that Trustees have conducted the affairs of the fund in compliance with the SIS Act and SIS Regulations for the year of income being audited.
- 100 Upon receipt of a representation, either verbal or written, the auditor evaluates the representation for reasonableness against other audit evidence collected, the knowledge of the individual making the representation and obtains corroborative evidence.
- 101 Representations by the Trustee cannot replace other evidence the auditor could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the audit, even if a representation from the responsible party has been received on the matter.
- 102 If the auditor is unable to obtain sufficient appropriate audit evidence regarding a matter which has, or may have, a material effect on the financial report, this constitutes a limitation on the scope of the audit, and under ASA 701 requires the auditor to express a qualified opinion or a disclaimer of opinion.
- 103 An example representation letter which covers both the financial and compliance audit is included as Appendix 3.

**Service Providers**

- 104 SMSFs may invest directly in unit trusts, listed shares, pooled superannuation trusts or other investment products for which prices are quoted publicly. For these investments the product or unit is recorded as an asset in the records of the SMSF rather than the underlying investments. In auditing investment products of this

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kind the auditor uses the publicly available prices for valuation and verifies the number of units held by external confirmation.

105 SMSFs may also use service providers to provide investment management services including:

- custody;
- asset management;
- property management; or
- investment management, including fund accounting and/or fund administration.

These management services may take the form of wrap accounts, mastertrusts, individually managed portfolio services, individual mandates or platform investments.

106 Ordinarily, in providing investment management services, the service organisation provides some of the recording functions of the SMSF and may also control certain compliance functions, in which case the services form part of the SMSFs information system relevant to financial reporting. In these circumstances, if the services involve material balances or transactions of the SMSF, obtaining an unaudited statement or confirmation from the service organisation is not sufficient audit evidence alone.

107 Draft GS 007 *Audit Implications of the use of Service Organisation for Investment Management* and ASA 402 *Audit Considerations Relating to Entities Using Service Organisations* provide specific guidance on obtaining evidence in these circumstances.

108 The use of a service organisation for the provision of investment management services by a SMSF does not alter the overall scope and objective of the audit of the SMSF's financial report, therefore it remains the responsibility of the auditor to obtain sufficient appropriate audit evidence to support the auditor's opinion. The requirements of the Auditing Standards relating to obtaining sufficient appropriate evidence on which to form an opinion are the same as would apply if the records and supporting documentation were maintained by the SMSF.

109 In obtaining an understanding of the SMSF and its environment, ASA 402 requires the SMSF auditor to determine the significance of the service organisation's activities to the SMSF and the relevance to the audit. In doing so, the user auditor determines:

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- the nature and materiality of the transactions processed or accounts affected by the service organisation; and
  - the nature of the relationship between the SMSF and the service organisation, including the contractual terms applying to the services provided by the service organisation.
- 110 Where the SMSF auditor concludes that the services provided by the service organisation are significant to the SMSF and relevant to the audit, ASA 402 provides four options to obtain a sufficient appropriate audit evidence relating to the service organisation’s provision of services to the SMSF. These are:
- visit the service organisation to obtain the information required; or
  - performing tests of the SMSF’s monitoring controls over the activities of the service organisation; or
  - obtain a “Type A”<sup>15</sup> Controls Report, on design and implementation of controls, or
  - obtain a “Type B” Controls Report on the design, implementation and operating effectiveness of the service organisation’s controls.
- 111 Unless, the SMSF is a significant investor with the service organisation, it is unlikely that the service organisation will permit the SMSF auditor to access the service organisation’s records. Furthermore, relying on SMSF monitoring activities of the service organisation may not be appropriate if the SMSF does not monitor the service organisation closely then the reliance afforded to the auditor is limited. A Type A controls report is useful only for obtaining an understanding of the entity and its environment as part of the planning work. The auditor may, however, seek to place reliance on the controls at the service organisation over the services provided by obtaining and assessing the evidence contained in a Type B controls report.
- 112 A type B controls reports comprises:
- i. management’s description of the service organisation’s control objectives and controls to meet each objective;

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<sup>15</sup> ASA 402 *Audit Considerations Relating to Entities Using Service Organisations* provides further guidance on control reports.

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- ii. a written assertion by management of the service organisation that the controls that relate to the control objectives are described accurately, are suitably designed to provide reasonable assurance of meeting the specified objectives, have been implemented and have operated effectively throughout the period;
  - iii. the service auditor's opinion about the assertions of management; and
  - iv. a description of the service auditor's tests of the controls and the results thereof.
- 113 Whilst the auditor of a SMSF may be able to rely on a Type B controls report as audit evidence of the operating effectiveness of controls over the services outsourced, the auditor must still conduct substantive procedures for all material balances and transaction under ASA 330. It may be impractical or impossible to gain access to the service organisation's records to conduct substantive testing, in which case a Special purpose auditor's report on a statement of the SMSF's balances and transactions or on specified assertions in relation to such balances and transactions may also be provided by or requested from the service organisation. GS 007 provides guidance on using such reports as audit evidence.
- 114 Evidence of the service organisation's compliance with the SIS Act and SIS Regulations with respect to the services provided to a SMSF may also be required in order for the auditor to form an opinion for the Compliance Report and to satisfy their requirements to report contraventions and material breaches of the SIS Act and SIS Regulations. The auditor may request the SMSF to engage the service auditor to conduct an agreed upon procedures engagement, which may comprise completion of a compliance checklist with respect to the services provided.

**Using the work of another auditor**

- 115 In relying on the service organisation's auditor, under ASA 600 *Using the Work of Another Auditor*, the SMSF auditor considers the professional competence of the other auditor in the context of the specific assignment as well as satisfy themselves that the work of the other auditor is adequate for the auditor's purposes.
- 116 In assessing professional competence of the service auditor, the SMSF auditor can gain some comfort from the other auditor having membership of a professional accounting body, membership of, or

affiliation with, a reputable accounting firm. With respect to the appropriateness of the auditor's work, the auditor will need to consider which controls, balances or transactions have been audited and whether the materiality level applied is appropriate to the SMSF's audit, whether an audit level opinion has been provided and whether the auditor's report is modified.

### **Confirmations**

- 117 ASA 505 *External Confirmations* requires the auditor to determine whether the use of external confirmations is necessary to obtain sufficient appropriate audit evidence at the assertion level. In making this determination, the auditor considers the assessed risk of material misstatement at the assertion level and how the audit evidence from other planned audit procedures will reduce the risk of material misstatement at the assertion level to an acceptably low level.
- 118 The audit procedures applied with respect to confirming investments will depend on the size and nature of the asset and how it is held. Sufficient evidence may include:
- for investments in units or products which are publically quoted such as managed funds, PSTs and listed property trusts, the auditor is ordinarily able to rely on the end of period statements and taxation summaries confirming the number of units held, quoted unit prices for valuation coupled with substantive testing of the SMSF's records for investments and redemptions.
  - for investments for which recording of certain balances or transactions is controlled by the service organisation, such as individual portfolio services and superannuation administration services, the end of period statements and taxation summaries are insufficient evidence alone but may be coupled with evidence of the operating effectiveness of controls within the service organisation as evidenced in a Type B controls report and further substantive testing of the SMSF's investment activity.
  - for a stand alone investment mandate where the investment is not pooled, appropriate audit evidence may include a Type B Controls report and other substantive testing at the service organisation or a special purpose audit report from the service organisation's auditor.

**Using the work of an actuary**

- 119     Actuaries are treated similarly to other experts. Where an actuary is being used by the SMSF, the auditor considers the qualifications and the appropriateness of the actuaries work with respect to the SMSF. From an SMSF audit perspective the actuarial certificate is audit evidence that needs to be assessed for its reliability and accuracy and that of the underlying information on which the actuary's calculations are based.

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## **Part A – Financial Audit**

- 120 The SMSF Trustee is responsible for the preparation and fair presentation of the financial report and that amounts and disclosures within the financial report reflects the financial position and results of the SMSF
- 121 The ATO's approved form auditor's report Part A: Financial Report requires the auditor to conduct the audit in accordance with Australian Auditing Standards to form an opinion regarding the fair presentation of the position and results of the SMSF for the period under review. And the adherence to accounting policies consistent with the financial reporting requirements of the SMSF's governing rules and compliant with the SIS Act and SIS Regulations.
- 122 ASA 200 requires the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework. As SMSFs generally prepare special purpose financial reports they are not required to formally adopt Australian Accounting Standards and the trustee determines the applicable financial reporting framework which they will apply to the fund's financial report.

## **Assertions and Audit Evidence**

- 123 In representing that the financial report gives a fair presentation of the SMSF's position, results and disclosure during the reporting period and are prepared in accordance with the applicable financial reporting framework, the Trustees implicitly or explicitly make assertions (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures.
- 124 In accordance with ASA 500, the auditor uses assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures.
- 125 Assertions used by the auditor fall into the following categories:
- (a) Assertions about classes of transactions and events reflected in the SMSF's operating statement for the period under audit:

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- (i) *Occurrence* - transactions and events that have been recorded have occurred and relate to the entity.
  - (ii) *Completeness* - all transactions and events that should have been recorded have been recorded.
  - (iii) *Accuracy* - amounts and other data relating to recorded transactions and events have been recorded appropriately.
  - (iv) *Cut-off* - transactions and events have been recorded in the correct accounting period.
  - (v) *Classification* - transactions and events have been recorded in the proper accounts.
- (b) Assertions about SMSF account balances reflected in the SMSF's Statement of Financial Position at the period end:
- (i) *Existence* - assets, liabilities, and equity interests exist.
  - (ii) *Rights and obligations* - the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
  - (iii) *Completeness* - all assets, liabilities and equity interests that should have been recorded have been recorded.
  - (iv) *Valuation and allocation* - assets, liabilities, and equity interests are included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
- (c) Assertions about presentation and disclosure of the SMSFs Statement of Financial Position and the Operating Statement accounts:
- (i) *Occurrence, rights and obligations* - disclosed events, transactions, and other matters have occurred and pertain to the entity.

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- (ii) *Completeness* - all disclosures that should have been included in the financial report have been included.
- (iii) *Classification and understandability* - financial information is appropriately presented and described, and disclosures are clearly expressed.
- (iv) *Accuracy and valuation* - financial and other information are disclosed fairly and at appropriate amounts.

126 The assertions form the basis of the substantive audit procedures tests that are applied to contributions, investments, income, benefits, expenses and income tax.

### **Materiality**

127 ASA 320 requires the SMSF auditor to consider materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the financial report is materially misstated or misrepresented<sup>16</sup>.

128 In determining materiality, the auditor needs to understand how the misstated item, such as an investment balance or investment yield might influence the decisions and behaviour of the Trustee. For example if the investment return and subsequent value of a portfolio was overstated, the Trustee may retire early. The impact, if any, on members/trustees which might influence the decisions of the intended users will be relevant to determining materiality.

129 ASA 320 requires the auditor to consider both quantitative and qualitative factors in determining materiality levels. The setting of materiality levels for the various elements of the SMSFs financial reports is a matter for the auditor's professional judgement.

130 Quantitative factors that may influence the determination of materiality for the audit of the SMSFs financial reports include:

- total gross assets;
- total gross income; and
- total member liabilities.

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<sup>16</sup> Auditors may include reference to the materiality levels they intend to use in the audit engagement letter.

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- 131 Qualitative factors that may influence the determination of materiality for the audit of a SMSF include:
- the significance of a misstatement to the SMSF;
  - the pervasiveness of a misstatement; and
  - the effect of misstatement on the financial report as a whole.
- 132 Overall, auditors establish materiality benchmark(s) appropriate to the entity's circumstances. The common benchmarks express materiality as a percentage figure of a particular balance or a dollar figure.
- 133 ASA 320 requires auditors to consider the possibility that the cumulative result of uncorrected misstatements below the materiality level could have a material effect on the financial report.
- 134 Where the ATO prescribes materiality levels, the auditor uses the prescribed level in conducting the audit.

**Opening balances**

- 135 ASA 510 *Initial Engagements – Opening Balances* requires the auditor consider whether the opening balances for the year in which they were appointed are fairly stated.
- 136 Upon appointment to a new engagement, for the initial audit the auditor ordinarily obtains sufficient appropriate audit evidence that confirms that:
- the opening balances (account balances which exist at the beginning of the period) do not contain misstatements that materially affect the current period's financial report;
  - the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and
  - appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.
- 137 When the prior period's financial report was audited by another auditor, the current auditor may be able to obtain sufficient audit evidence by reviewing the predecessor auditor's working papers. In these circumstances, under ASA 600, the current auditor ordinarily considers the professional competence and independence of the

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predecessor auditor. If the prior period's auditor's report was modified, under ASA 701 *Modifications to the Auditor's Report*, the auditor pays particular attention in the current period to the matter which resulted in the modification.

- 138 Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the requirements of the applicable code of professional conduct of a professional accounting body<sup>17</sup>.
- 139 If the prior period's financial report was not audited or when the auditor is not able to obtain sufficient appropriate audit evidence by examining the work of the previous auditor, the auditor ordinarily undertakes further audit procedures to obtain sufficient appropriate audit evidence to ascertain whether the opening balances are fairly stated.
- 140 Some audit evidence can ordinarily be obtained as part of the current period's audit procedures for the opening balance of current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other smaller items may provide sufficient appropriate audit evidence. For investments and material balances, the auditor examines the accounting records and other information underlying the investments which generally may contain the opening balances of such investments. In certain cases, the auditor may be able to obtain confirmation of opening balances with third parties such as share registries or fund managers. When the auditor can not obtain this information, the auditor may need to carry out additional audit procedures to verify the opening balances.
- 141 If audit procedures do result in obtaining sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's opinion is modified by either:
- a) an emphasis of matter paragraph;
  - b) a qualified opinion
  - c) a disclaimer of opinion; or

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<sup>17</sup> In Australia, the applicable code of conduct of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional Ethics Standards Board. This code of conduct has been adopted by CPA Australia, National Institute of Accountants and The Institute of Chartered Accountants in Australia and is applicable to their members.

d) an adverse opinion

Further guidance on the appropriate modification to report is provided in paragraph XXX.

### **Auditing Investments**

142 The investments of a SMSF fund may include:

- securities, listed or unlisted;
- fixed rate securities such as government, semi-government or corporate bonds, loans (secured or unsecured) and mortgages;
- variable rate and discount securities such as bank bills, promissory notes or floating rate notes;
- hybrid securities which have both interest and equity components, such as convertible notes or converting preference shares;
- managed products such as units in trusts of many types including Pooled Superannuation Trusts (PSTs);
- unlisted trusts;
- cash or other monetary assets;
- derivatives such as futures, options, warrants;
- land or buildings and
- insurance policies.

Investments may be domestic, international or a combination of both. Further, investments may be held by a custodian, the individual trustee(s) or a corporate trustee.

143 The audit assertions for auditing an SMSF's investments are:

- *existence*– obtaining evidence that the investment exists;
- *rights and obligations (ownership)* – obtaining evidence that the investments are owned directly or beneficially by the SMSF;

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- *completeness*– obtaining evidence that all investments owned by the SMSF are recorded ; and
- *valuation and allocation* – obtaining evidence that investments are valued at in accordance with the accounting policies adopted and allocated to the correct account; and

144 The auditor also tests investments for compliance which is dealt with in Part B.

145 The audit procedures relating to investments will vary depending on the administration, management of the fund, trustee structure, whether the SMSF is internally managed, professionally administered or wholly managed by an external manager. The auditor exercises professional judgement in determining the appropriate audit procedures.

*Existence and ownership*

146 The assets of a superannuation fund vest in the Trustees, however, assets may be registered in the name of the Trustees or another body as custodian. In establishing existence and ownership of the fund assets, the auditor establishes that investments exist and are registered in the name of the Trustees or custodian and are in fact being held on behalf of the fund.

147 Documentation and other verification is necessary to establish that the assets of the fund have actually vested in the Trustee. Auditors usually physically examine or sight documentation that verifies that the SMSF is the beneficial owner of the investment. Declarations of Trust, certificates, investment statements and other documents can assist in providing sufficient appropriate audit evidence that the assets are being held by or on behalf of the fund.

*Completeness*

148 The auditor ensures that all investments of the fund have been recorded at the correct amounts and in the correct period. The auditor reviews supporting documentation to ensure that no asset of the fund has been excluded. This may extend to obtaining investment schedules from previous years and examining them for changes and movements and reconciling the schedules with purchase and sale transactions for the current period to ensure that all movements in investments have been recorded.

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*Valuation of assets*

- 149 The valuation of investments requires the Trustee to exercise their discretion when determining the most appropriate valuation methods to be applied to all investments of the SMSF. With no definitive method for valuing assets and trustees having a choice of valuation method, the auditor assesses that the valuation method employed is appropriate and consistent with the policies described in the notes to the financial report and has been applied consistently to the assets and accounts.
- 150 The ATO's preferred valuation method as outlined in its circular 2003/01 is that SMSFs assets are carried at *market value*<sup>18</sup>. Market value is the amount which could be expected to be received from a disposal in an orderly market. *AAS 25 Financial Reporting by Superannuation Plans*<sup>19</sup> requires a slightly different basis in that assets be recorded at *net market value* which is derived after deducting the costs of disposal from market value. As noted previously, Trustees have a choice of which method to use to value their investments.
- 151 Determination of market value depends on the nature of the asset. For cash, cash equivalents and listed securities which are publically quoted, market prices are readily available. Non-monetary items, such as property and collectibles, require alternative methods to arrive at an estimate that approximates market value. The auditor exercises professional judgement in assessing the reasonableness of the method employed and the value disclosed.
- 152 Multiple valuation methods exist including:
- independent valuation by an expert:
  - net tangible asset backing:
  - latest sale prices,
  - cost:
  - present value method;

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<sup>18</sup> Australian Taxation Office Superannuation Circular 2003/1 Self Managed Superannuation Funds states that SMSF should use market values for all valuation purposes. This includes valuations for determining the purchase price of a pension and the use of market value accounting for all financial statements.

<sup>19</sup> AAS 25 Financial Reporting by Superannuation Plans is currently being reviewed. Any changes made to AAS 25 should be incorporated, if relevant, into the auditors audit procedures.

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- valuations from similar assets;
- sworn valuations; and
- applications of indices.

The auditor needs to be aware of the different valuation methods available and assess whether their use by the trustee is appropriate for the SMSF.

- 153 Overseas assets need to be stated in Australian dollars and be valued in a consistent manner to Australian assets.
- 154 If the auditor is unable to form an opinion in the assessing the reasonableness of the valuation due to uncertainty and no expert valuation can be obtained the auditor considers qualification of the auditor's report.

*Business real property*

- 155 Trustees are permitted to hold business real property<sup>20</sup> and to purchase business real property from the Trustees. Business real property is broadly defined the SIS Act as any freehold or leasehold interest of the entity in real property that is used in the production of the trustee's business income – for example land, buildings, warehouses, factories can be considered business real property if used in the production of business income for the Trustees.
- 156 In valuing the business real property, the auditor ordinarily relies on the Trustee's valuations. These can be based on Council rates notices, sworn valuations by appropriately qualified valuers, kerbside valuations by real estate agents or a Trustees best estimates or a combination of some or all of these methods and this will effect the reliability of the evidence they provide. The ATO, in Circular 2003/01, recommend that for the purpose of financial reporting, valuations be conducted at the funds reporting date on an annual basis. Nevertheless, the Trustee may obtain the valuations less frequently in which case the auditor may need to conduct further procedures to satisfy themselves that the valuation is not materially misstated.
- 157 For investments which represent greater audit risk, such as business real property which may be operated or controlled by the Trustee, and material property investments, the auditor seeks to obtain the

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<sup>20</sup> Business real property is defined in SIS Act Section[x].

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most reliable evidence available – such as a sworn valuation on an annual basis. For investments which are not material or high risk, a sworn valuation at least once every 3-years with less reliable valuation methods being used in the interim years may be sufficient appropriate audit evidence.

- 158 It is not the role of the auditor to value the property. The auditor assesses the valuation method and evaluates it for accuracy and reasonableness.

*Bank confirmations*

- 159 During the audit planning phase, the auditor ordinarily gains an understanding of the nature and extent of the SMSFs banking activities. Based on this understanding, the auditor determines the significance of banking activities to the audit by reference to the established preliminary materiality levels and audit risk. If the banking operations are significant to the audit, the auditor sends bank confirmation requests to the SMSFs bank or banks.

- 160 A bank confirmation request means a request of a bank to provide independent confirmation for audit purposes of such information as the SMSFs account balances, securities, treasury management instruments, documents and other related information held by the bank on behalf of the SMSF or any deliberate or inadvertent borrowings.

**Contributions**

- 161 Contributions into SMSFs are typically sourced from either the member or the member's employer/business. Contributions will be categorised as concessional, for which a tax deduction has been claimed, or non-concessional for which no tax deduction has been claimed. The common types of contributions for a SMSF may include:

- Superannuation guarantee;
- Salary sacrifice;
- Award;
- Rollovers from other complying funds;
- Member contributions;

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- Spouse contributions;
- Child contributions;
- Small Business Rollovers ;
- Amounts transferred from overseas fund;
- Co-contribution; and
- In-specie contributions.

Rollovers of benefits from another complying superannuation fund are not considered contributions.

162 The audit objectives for auditing contributions received by an SMSF are:

- *Occurrence* - contributions received by the SMSF were real and occurred;
- *Completeness* - all contributions received by the SMSF have been recorded;
- *Accuracy* - all contributions received by the SMSF have been recorded appropriately and allocated to the correct member;
- *Cut-off* - all contributions received by the SMSF in the period have been recorded in the correct period; and
- *Classification* - that all the contributions received by the SMSF have been allocated to the correct member and recorded in the proper accounts – such as concessional or non-concessional.

163 The Trustees' primary responsibilities for contributions are to ensure that:

- contributions are only accepted as prescribed by the SIS requirements and fall within the contribution caps;
- all contributions, which are known to be due and payable (e.g. contributions from related entities), have been collected; and
- contributions have been correctly allocated to the member for whom contributions were received.

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- 164 Audit risks to be considered in relation to contributions may include but are not limited to:
- incorrect allocation of concessional and non-concessional contributions to members;
  - incorrect taxation treatment of contributions; and
  - the timing of contributions in respect of the contribution caps.
- 165 Specific audit procedures in relation to contributions are outlined in Appendix 3.

**Revenue**

- 166 Revenue of a superannuation fund, other than contributions, may include:
- dividends;
  - interest;
  - rental payments;
  - unit trust distributions;
  - insurance policy proceeds and bonuses;
  - unrealised gains; and
  - realised changes in net market value.
- 167 The audit objectives for revenue received by an SMSF are:
- *Occurrence*- revenue received by the SMSF was real and occurred;
  - *Completeness* - all revenue received by the SMSF has been recorded;
  - *Accuracy* - all the revenue received by the SMSF has been recorded appropriately and, in the case of contributions allocated correctly to the member;

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- *Cut-off* - all the revenue received by the SMSF in the period was recorded in the correct period; and
- *Classification* - that all the revenue contributions received by the SMSF has been recorded in the proper accounts.

168 Audit risks to be considered in relation to auditing revenue may include but are not limited to:

- timely receipt of appropriate income;
- understated revenue for the period;
- increased taxation due to understated imputation credits;
- incorrect capital gains taxation calculation and over/under payment of taxation; and
- calculation of net market movement which can lead to incorrect allocation of earnings to member balances.

169 Specific audit procedures in relation to revenue are outlined in Appendix 3.

**Benefit payments**

170 Benefit payments from SMSFs are generally triggered by the member's retirement, death, temporary disablement or permanent disablement or desire to rollover their benefit to another fund. Superannuation funds can pay a number of benefits including:

- a lump sum benefit upon retirement, death or total and permanent disablement or total and temporary disablement;
- an account based income stream;
- a lifetime pension or defined benefit pension;
- a transition to retirement income stream;
- a market linked income stream;
- a complying pension; and
- a rollover entitlement to another complying superannuation fund.

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- 171 Benefits are generally paid to the member, the member's spouse, the member's financial dependant or the member's estate depending on the circumstances or another superannuation fund. Benefits can be split pursuant to a Family Court order or mutually agreed division upon divorce or separation of a couple. Depending on the rules of the fund, benefits can be paid in a lump sum as cash or in-specie as a transfer of an asset or as a pension or a combination of the lump sum and pension methods. Finally, benefits can be rolled over to another complying superannuation fund.
- 172 The relevant assertions with respect to benefit payments for a SMSF are:
- *Occurrence*- the benefits recorded by the SMSF were paid; and
  - *Completeness* - all benefit payments made from the SMSF have been recorded; and
  - *Accuracy* –benefits paid by the SMSF have been calculated and recorded appropriately; and
  - *Cut-off* – all benefit payments by the SMSF in the period have been recorded in the correct period; and
  - *Classification* – all benefit payments by the SMSF have been recorded in the proper accounts and are allocated to the appropriate member.
- 173 Audit risks to be considered in relation to auditing benefits may include but are not limited to:
- unjustified payment of a benefit;
  - incorrect calculation of a benefit payment
  - early access to benefits;
  - payment to incorrect member of a benefit; and
  - payment of a benefit from a continuing member's account.
- 174 Specific audit procedures in relation to benefits are outlined in Appendix 3.

## **Expenses**

175 The typical expenses of a SMSF may include:

- investment or administration fees;
- audit fees,
- actuarial advice;
- legal advice;
- valuation fees;
- accounting fees;
- investment management fees;
- property fees – if the SMSF invests in property; and
- insurance premiums paid.

Income tax may be treated as an expense if the Trustees have adopted AASB 112

176 The audit objectives with respect to SMSF expenses are:

- *Occurrence*- the expenses recorded by the SMSF were paid;
- *Completeness* - all expenses paid or payable by the SMSF have been recorded;
- *Accuracy* - all the expenses have been recorded appropriately;
- *Cut-off* - all the expenses of the period have been recorded; and
- *Classification* - that all the expenses have been allocated to the proper accounts or member to which they relate.

177 The auditor ordinarily reviews any payments made to Trustees personally to validate that the payment was bona fide and not either an early benefit or a payment for Trustee services. Trustees of SMSFs are not permitted to be paid for their services.

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178 Audit risks to be considered in relation to auditing expenses may include but are not limited to:

- a personal expense being paid by the SMSF;
- the presence of salary or wage expenses;
- the presence of interest expenses;
- unreasonable or false payments;
- over-inflated expenses being levied upon the SMSF; and
- payment to incorrect creditor;

179 Specific audit procedures in relation to benefits are outlined in Appendix 3.

**Member Entitlements**

180 Member entitlements represent the member benefits that the member could reasonably expect at the end of the reporting period.

181 Member benefits of an SMSF may include:

- any accumulation type entitlement where the member bears the investment risk;
- any defined benefit entitlement where another party other than the member, generally an employer, bears the investment risk;
- any income stream benefit - account based;
- any income stream benefit – complying or market linked; and
- any insurance coverage paid for by the SMSF and deducted from the member's accounts.

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- 182 The audit assertions with respect to a SMSF's member's entitlements are:
- *Existence* - that the member entitlement's exist;
  - *Rights and obligations* – the member entitlement's are obligations of the SMSF;
  - *Completeness* – all member entitlements of each member of the SMSF have been recorded; and
  - *Valuation and allocation* - that member entitlements are recorded at appropriate amounts and allocated to the appropriate account/member.
- 183 Audit risks for member entitlements include:
- Contributions not being allocated correctly to members;
  - Income not being allocated correctly or appropriately to individual members;
  - Expenses being allocated incorrectly to members balances; and
  - Member balances and components not being carried forward correctly from one period to another.
- 184 With respect to defined benefit funds and complying income streams, the auditor ensures that all necessary actuarial reviews and certifications have been obtained and that any reserves are appropriately disclosed.
- 185 Specific audit procedures in relation to member entitlements are outlined in Appendix 3.

**Liabilities**

- 186 Typical liabilities of an SMSF may include:
- any benefits payable to members;
  - sundry accruals for audit fees;
  - sundry accruals for accounting fees or other expenses;

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- bank overdrafts and other borrowings;
- provision for taxation;
- provision for GST payable, if the fund is registered for GST; and
- accrued property expenses where the SMSF invests in property.

187 The audit assertions with respect to a SMSF's liabilities are:

- *Existence* - that the liabilities exist;
- *Rights and obligations* – the liabilities are obligations of the SMSF;
- *Completeness* – all liabilities of the SMSF should have been recorded; and
- *Valuation and allocation* - that liabilities are recorded at appropriate amounts and allocated to the appropriate account.

In addition, the auditor satisfies that any borrowings are in compliance with the SIS Act and SIS Regulations borrowing restrictions.

188 Generally, borrowings are not allowed, except for temporary amounts which are required for the payment of member benefits, payment of the surcharge, or for the settlement of securities transactions. Auditors normally test that liabilities are in accordance with the provisions of the governing rules and there are no borrowings which would breach the SIS requirements.

189 Audit risks to be considered in relation to auditing liabilities may include but are not limited to:

- prohibited borrowings by the fund; and
- excessive accruals for expenses that are not being paid or are legitimate expenses of the SMSF.

190 The auditor normally performs a search for unrecorded liabilities by examining banking records after balance date.

191 Specific audit procedures in relation to benefits are outlined in Appendix 3.

## **Auditing Taxation**

### *Income tax*

192 Income tax is payable on investment earnings (net of expenses) with full imputation credits for dividends received from Australian companies and credits for dividend and interest withholding tax on overseas income. Income tax is also payable on employer contributions and on member contributions where the member has notified the Trustees of an intention to claim the member contributions as a personal income tax deduction. Deductions are available for certain payments and expenses.

193 Some funds adopt tax-effect accounting which requires the auditor to assess the impact of AASB 112 *Accounting for Income Taxes upon the fund*. The auditor ordinarily considers whether the recognition and recovery, if appropriate, of any current or deferred taxation liabilities or taxation assets is appropriate given the age of the members and the circumstances of the SMSF.

194 The main areas of focus for an auditor with respect to taxation are taxable income and allowable deductions. Audit procedures may include ensuring:

- all the income attributable to the fund is recorded correctly and in the correct period; and
- all the allowable expenses attributable to the fund are recorded correctly and recognised in the correct period; with particular focus on contributions and their taxation status being confirmed.

195 Whilst there is no legislative imperative or auditing standard requirement, the auditor ordinarily reviews and recalculates the income taxation calculation to verify that the appropriate level of taxation is being levied upon the SMSF.

### *Contributions*

196 With contributions being capped by legislation, the auditor needs to be aware of the caps for concessional and non-concessional contributions and pay special attention to contribution amounts in excess of the caps. The auditor may need to make additional

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enquiries of the employer or trustee to validate the amounts involved. Significant tax penalties may be levied for contributions in excess of the cap.

197 The auditor ordinarily checks to see that the treatment of any taxable contributions has been appropriate given the documentation that may have been provided by the member or member's employer. The auditor also examines the classification of contributions to validate their appropriate treatment and allocation to members.

198 The auditor ordinarily ensures that the contributions for the year are complete, recorded correctly for taxation purposes and that they are allocated to the correct member.

*Standard income*

199 The standard income of the fund includes:

- investment earnings such as interest, dividends, rents, trust distributions, and capital gains;
- taxable contributions received during the year; and
- insurance premium rebates or refunds.

It does not include:

- income derived but not yet received;
- non-reversionary bonuses on life policies; and
- income from segregated assets funding pensions.

*Non-arm's length income*

200 Non-arm's length<sup>21</sup> income of the fund includes excessive private company dividends and non-arm's length income and certain trust distributions which are taxed at a higher rate.

*Imputation credits*

201 Imputation credits attached to superannuation funds are very important in reducing overall taxation liability of the fund. Hence,

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<sup>21</sup> Non-arm's length income was previously known as special income.

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auditors ensure that all imputation credits to which the fund is entitled have been recorded and that the respective franking credit of each dividend is accounted for correctly. Finally, auditors can examine whether the fund is entitled to any excess unused rebate and hence a refund from the ATO.

*CGT*

202 A significant portion of the growth in the value of SMSF assets is subject to capital gains taxation. The auditor ordinarily examines any transaction involving possible CGT assets that may lead to a CGT event and thus be ultimately taxable to the fund. This ensures that the CGT expense to the SMSF is appropriately stated. Auditors need to be aware of the fact that CGT applies to all assets, including those purchased pre-CGT which are deemed to be purchased on 30 June 1988.

203 Any small business CGT concession contributions needs to be examined to ensure that they have been appropriately calculated and classified.

*GST*

204 The majority of funds do not meet the thresholds at which they are required to register for GST. If the fund is registered for GST and has input taxed supplies and output taxed supplies the auditor reviews the GST calculation and BAS returns to ensure that the correct amounts are being disclosed and the fund is meeting its reporting and payment obligations with respect to the GST levied on qualifying transactions.

*Allowable deductions*

205 The general rules of deductibility apply to superannuation funds. Ordinarily, the auditor examines the deductions claimed to ascertain their legitimacy and deductibility. In general the following expenses are deductible – administration fees, actuarial costs, accountancy and audit fees, investment management fees and custody fees. Other expense such as depreciation may be deductible depending on the circumstances of the expense. Depending on the type of insurance policy, the insurance premium may also be deductible, in part or in full. Care needs to be taken to ensure that capital items have not been claimed.

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- 206 The auditor checks that the expenses claimed belong to the fund and were not personal in nature, or if they were shared, the correct proportion of the expense has been claimed by the SMSF.

*Completion of the return*

- 207 The auditor ordinarily checks the taxation calculation to verify that it appears appropriate and reasonable in light of the SMSFs circumstances.
- 208 The auditor, in reviewing the tax calculation ordinarily establishes that exempt income has been identified and that the income, which has been included, is correctly treated. Confirmation of tax paid or tax-exempt status of investment income and members' contributions is required. The auditor ensures that copies of the relevant actuarial certificates are obtained where appropriate. Accordingly, the auditor pays close attention to the treatment of capital gains tax.
- 209 The auditor ordinarily checks the completed return to ensure that the form has been completed correctly and no misstatements or errors such as transposition errors have been recorded. Further, the SMSF auditor needs to check that their own details have been recorded appropriately.

*Pension and accumulation mode and actuarial reports*

- 210 The auditor ordinarily sights and evaluates the actuarial report that is used to assist in the calculation of taxable income for SMSFs with unsegregated assets that are part funding a pension stream. The auditor needs to ensure that the correct percentage figure has been applied to taxable income and the correct amount of tax is being paid.

**Other Audit Considerations**

*Going Concern*

- 211 The SMSFs financial report is prepared on the basis that the SMSF is a going concern. ASA 570 *Going Concern* requires the auditor to consider and remain alert to whether there are any events, conditions and related business risks that may cast significant doubt on the SMSF's ability to continue as a going concern<sup>22</sup>. In performing

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<sup>22</sup> ASA 570 *Going Concern* provides specific guidance and further procedures if the auditor considers that there are going concern issues with the SMSF present now or in the future.

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their audit the auditor considers the period under review as well as the period subsequent to the period under review.

- 212 The SIS Act, under section 130 imposes a requirement on the auditor to notify the ATO if the auditor in the course of performing the audit, the auditor forms the opinion that the position of the entity may be, or may be about to become unsatisfactory, the auditor is required to inform the ATO, as regulator, and the Trustees as soon as practicable after forming the opinion.

*Insurance*

- 213 SMSFs may obtain insurance cover over an asset, such as a commercial building from damage or destruction, or for a member in the event of death, total and permanent disability and/or total and temporary disability (income protection insurance)<sup>23</sup>.

- 214 An auditor is not charged with assessing whether the insurance type and level is appropriate.

- 215 The auditor is generally concerned that:

- the insurance exists;
- the SMSF is both the owner and beneficiary of the policy;
- the premium is paid by the fund and that cover is effected; and
- that the Trustees have minuted the decision to be insured or continue with the insurance cover.

- 216 With respect to investment properties, residential or commercial, the auditor ordinarily checks to determine if there is insurance in place to protect the fund in case an asset is damaged or destroyed. Circumstances may exist where the fund's tenancy lease agreement stipulates that the tenant is required to pay for the insurance. In these cases, the auditor ordinarily checks to see if the policy is up to date and the beneficiary of the insurance benefit is the SMSF and not the tenant.

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<sup>23</sup> Income protection insurance may be permitted within an SMSF but insurance premiums may not be fully tax deductible for the fund.

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*Subsequent events*

- 217 ASA 560 *Subsequent Events* requires the auditor apply audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial report have been identified. Procedures that may be followed include – making enquiries of the Trustees as to any major events occurring post balance date and examining the bank account and investment performance of the SMSF post-balance date but before signing the SMSF auditor's report.
- 218 The auditor seeks to identify any subsequent events and considers their effect on the financial reports up to the date of the SMSF auditor's report.
- 219 The auditor's response to the subsequent events depends on the potential for such events to affect the financial reports and to affect the appropriateness of the auditor's opinion. For example, if the Trustees decide to wind up the fund, this would be a material event requiring appropriate disclosure. However, if a small shareholding, of the SMSF became worthless, but was not material it may not need disclosure.

*Winding up*

- 220 The auditor continues to play a key role when the Trustees of an SMSF fund decide to wind up the fund. The SIS Act still requires the auditor to audit the SMSF from the previous balance date to the date of winding-up the fund.
- 221 Upon winding up, a normal audit is performed with increase testing in the area of :
- liquidating investments to see how they were realised or transferred in-specie and what value was received;
  - benefit payments to ensure they are bona fide, calculated correctly and paid to the correct individual with the correct amount of tax deducted withheld and remitted appropriately; and
  - rollovers to see they are paid to complying superannuation funds.

**Reporting**

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- 222 The reporting responsibilities of the auditor are detailed in the SIS Act. For the financial audit, the SIS Act requires the auditor to:
- express an opinion on the financial statements of the SMSF presented for audit; and
  - for the auditor to give the Trustees a report in the approved form within the prescribed time as set out in the SIS Regulations.

*Form an opinion*

- 223 ASA 220 requires that before the auditor's report is issued, the auditor, perform a review of the audit documentation and conduct a discussion with the engagement team, to satisfy themselves that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.
- 224 The auditor prepares, on a timely basis, documentation that is sufficient and appropriate to provide:
- a basis for the auditor's conclusion;
  - evidence that the financial audit was performed in accordance with ASAs; and
  - evidence that the compliance audit was performed in accordance with ASAEs.
- 225 Documentation includes a record of the auditor's reasoning on all significant matters that require the exercise of judgement, and related conclusions. The existence of difficult questions of principle or judgement, calls for the documentation to include the relevant facts that were known by the auditor at the time the conclusion was reached
- 226 In applying professional judgement to assess the extent of documentation to be prepared and retained, the auditor ordinarily considers what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken to allow another experienced auditor who has no previous experience with the engagement to reach the same opinion. It is, however, neither necessary nor practicable to document every matter the auditor considers during the audit engagement.

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227 In developing the opinion, the auditor ordinarily considers all relevant evidence obtained, regardless of whether it appears to corroborate or to contradict the subject matter information.

*Modifications of the auditor's report*

228 ASA 701 contains requirements and guidance regarding when a modification is necessary.

229 Modifications to the auditor's report may be either:

- an emphasis of matter paragraph, which does not affect the auditor's opinion;
- a qualified opinion;
- a disclaimer of opinion; or
- an adverse opinion.

230 The circumstances in each of these modifications are appropriate are:

(a) *Emphasis of matter.*

An auditor's report is modified by adding an emphasis of matter paragraph to highlight:

- a significant uncertainty regarding a going concern matter;<sup>24</sup>
- a significant uncertainty regarding a future matter outside the control of the SMSF which may materially affect the financial reports;
- that additional disclosure is required to highlight that a financial report may be potentially misleading;
- a material inconsistency in a document containing the SMSF's financial report; and
- a subsequent event occurring or discovery that requires a revised financial report.

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<sup>24</sup> If the auditor has concerns about the viability of the SMSF, this would warrant an immediate section 130 notice to be issued to the ATO. The trustees ordinarily would be informed and procedures put in place to protect the assets of the SMSF.

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The addition of such an emphasis of matter paragraph does not affect the auditor's opinion but draws the user's attention to the matter raised.

(b) Qualified opinion.

A qualified opinion may be issued where there exists a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or a limitation on scope which is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion is expressed as being "except for" the effects of the matter to which the qualification relates.

(c) Disclaimer of opinion.

A disclaimer of opinion is ordinarily expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial report.

(d) Adverse opinion.

An adverse opinion is expressed when the effect of a disagreement or a conflict between applicable financial reporting frameworks is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor's report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph is headed "Adverse Auditor's Opinion".

- 231 Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons is included in the auditor's report and, unless impracticable, a quantification of the possible effect(s) on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore are included in the basis for modification paragraph of the auditor's report.

*Communication of Audit Matters*

- 232 ASA 260 *Communication of Audit Matter with Those Charged with Governance* requires that auditors communicate matters of governance interest arising from the audit issues to the trustees on a timely basis to enable to take appropriate action sooner. Ordinarily,

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- the auditor discusses with the trustees and/or management those matters arising from an audit that are causing concern. This provides the trustees an opportunity to clarify facts and issues and provide further information.
- 233 The auditor is also required under ASA 260 to inform the trustee of those uncorrected misstatements aggregated by the auditor during the audit but were determined by management to be immaterial, both individually and in the aggregate, to the financial report taken as a whole, other than trivial amounts.
- 234 Under ASA 260 the communication may be made orally or in writing, however, to meet the documentation requirements of ASA 230 the matters communicated and any responses need to be documented in the working papers. Oral communications may need to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.
- 235 Legislation requires the auditor to report all breaches to the Trustee, regardless of materiality. Where for example, a breach has been noted which is not considered material for qualification of the auditor's report, the auditor is still required to report it to the Trustees under section 129. If a matter was significant enough to report under section 130, the audit opinion would most likely be modified.
- 236 Equally ASA 250 *Consideration of Laws and Regulations in an Audit of Financial Report* requires that matters regarding non-compliance be reported as soon as practicable. This may be earlier than the management letter or section 129 notice is issued. Accordingly, an exit interview or sign-off interview with the trustee may facilitate a stronger understanding of the matter.
- 237 If the auditor considers that the breach is intentional, then ASA 250 requires that the auditor communicate the finding without delay. Under section 130, this matter may also need to be reported to the ATO as soon as practicable.

## **Part B – Compliance Audit**

- 238 The relevant AUASB Standards for conduct of the compliance audit of an SMSF audit are ASAE 3000 and ASAE 3100. The principles contained in the ASAs may also be helpful in the conduct of the compliance audit. For example, ASA 500 may provide further guidance on obtaining sufficient appropriate audit evidence to justify an audit conclusion on compliance with the SIS Act and SIS Regulations.
- 239 The SMSF Trustee is responsible for the compliance of the SMSF with the SIS Act and SIS Regulations and any other legislation, such as the Taxation legislation affecting SMSFs. The Trustee's compliance responsibilities are summarised in a SMSF checklist issued by the ATO, available at: [\[insert hyperlink\]](#).
- 240 The approved form auditor's report, as issued from time-to-time by the ATO, details the specific sections and regulations of the SIS Act and SIS Regulations to be covered by the auditor's compliance opinion. In forming the audit opinion, the ATO only require that the auditor form their opinion on compliance examining evidence on a sample basis only<sup>25</sup>.
- 241 ASAE 3100 requires the auditor to establish a compliance framework and compliance criteria against which to assess the SMSF's compliance. By virtue of the SIS legislation, the compliance criteria are specified in the auditor's report which details the specific sections of the SIS Act and SIS Regulations against which the auditor forms their compliance opinion. The auditor does not need to assess whether the criteria are suitable as they prescribed by legislation.

### **Evidence and documentation**

- 242 ASAE 3100 requires the auditor to obtain sufficient appropriate evidence on which to base the audit conclusion. The auditor after attaining an understanding of the SMSF and the potential compliance risks, such as investment breaches and sole purpose test issues, the auditor designs and conducts further audit procedures clearly linked to the identified risks to gain a reasonable assurance

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<sup>25</sup> The ATO's SMSF Independent Auditor's report states "My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act and the SIS Regulations".

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that the fund is fundamentally complying with the SIS legislation or otherwise.

- 243 In a similar manner to the financial audit, evidence collected during the compliance audit may be gathered through inquiry and observation, tests of controls, substantive testing, and representations received from management. Much of the evidence will be gathered in parallel with the financial audit.
- 244 The auditor in conducting the compliance audit uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the compliance audit conclusion.
- 245 If a SMSF auditor finds, prima facie, material compliance issues, the auditor ordinarily adapts the audit plan to conduct further audit evidence procedures to fully investigate the compliance matter(s) to reduce the compliance audit risk to assist in formulating the audit opinion on whether the SMSF is compliant or otherwise
- 246 ASAE 3100 requires the auditor to prepare on a timely basis documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and that the compliance audit was conducted in accordance with the ASAEs.
- 247 Documentation includes a record of the auditor's reasoning on all the significant matters that require the exercise of judgement. Given the fact that an auditor may exercise a significant amount and degree of professional judgement and interpretation of facts may differ between individuals with respect to compliance matters, the auditor documents a significant amount of information, including the reasoning behind many facets of the compliance audit.
- 248 With the potential for compliance matters to adversely affect the SMSF, and with the ATO having a number of remedies available for rectifying compliance issues, the auditor ordinarily considers the facts of the matter under consideration and prepares an appropriate amount of documentation to justify their reasoning and conclusion.

*Utilising the work of an experts*

- 249 If the auditor considers it necessary to utilise the work of an expert in the collection and evaluation of evidence, for example an actuary or qualified valuer, the auditor:

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- assesses the experts' professional competence, experience and objectivity of the expert and their ability to perform the designated task; and
- understands the experts work to the extent that the auditor is able to accept responsibility for the conclusions on the subject matter being considered – e.g. the proportion of assessable income attributable to a member still in accumulation phase; and
- obtains sufficient appropriate evidence that the expert's work is adequate for the purposes of the compliance audit.

*Subsequent events*

250 The auditor considers the effect on the auditor's compliance report of subsequent events occurring up to the date of the auditor's compliance report. Some subsequent events, for example a further borrowing by the trustee from the fund, may not impact upon the compliance opinion for the period under review but may impact upon the subsequent period's opinion. However, a subsequent event such as further borrowing may need to be reported to the trustees.

251 If the subsequent event was a material breach that ordinarily would have meant a modified compliance opinion being issued, the breach may indicate a systemic issue for which the auditor would ordinarily instigate further audit evidence collecting procedures to assist with formulating the auditor's conclusion.

*Materiality*

252 Materiality in the context of a compliance audit is at three levels:

- issues where the auditor may utilise professional judgement;
- issues where the ATO, the SIS Act or SIS Regulations impose a materiality level binding on SMSF auditors in the conduct of their audit; and
- strict liability provisions in the SIS Act or SIS Regulations where no flexibility is available and the auditor needs to follow any reporting guidelines specified.

253 In the context of the compliance audit, where the auditor utilises professional judgement to determine materiality in forming an

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opinion on whether a breach is material, the auditor may consider a broader set of qualitative criteria such as<sup>26</sup>:

- when the breach was detected;
- how long it was allowed to remain a breach;
- whether the breach, once detected and communicated to the trustees, was rectified immediately in full or in part;
- whether the breach was rectified to a level where it was just under a legislative restriction (e.g. a 5% in-house asset limit);
- has the breach occurred in a prior period; and
- is the breach indicative of a systemic problem.

254 With respect to planning and conducting a compliance audit, the auditor needs to be aware of any current prescriptive materiality levels that the ATO, the SIS Act or the SIS Regulations impose to ensure that they are applying the correct materiality levels.

255 Certain provisions within the SIS Act and SIS Regulation are strict liability provisions where the SMSF can either comply or not comply. In these circumstance there is no provision for professional judgement in interpreting whether the fund has complied. Any breach of these strict liability provisions requires the auditor to follow the appropriate reporting guidelines as issued by the Regulator – such as completing an Audit Contravention Report.

*Reporting requirements*

256 The ATO and SIS Act and SIS Regulations impose a number of reporting obligations on the auditor. The SIS Act, requires the auditor if in the conduct of the audit

- the auditor becomes aware that it is likely that contraventions of the SIS Act and SIS Regulations may have occurred, may be occurring, or may occur, then under section 129, the auditor ordinarily informs the trustees in writing of their concerns; and

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<sup>26</sup> The above list is not an exhaustive list of qualitative factors that could be considered.

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- the auditor forms the opinion that the position of the entity may be, or may be about to become unsatisfactory, then under section 130 the auditor is required to inform in writing the ATO, as Regulator, and the Trustees as soon as practicable after forming the opinion.
- 257 If the auditor becomes aware of non-compliance with the SIS Act and/or SIS Regulations, the auditor ordinarily discusses the contravention in the first instance with the Trustees. Likewise, if the auditor becomes aware that the fund is at potential risk, then the auditor needs to inform the trustees and the ATO in writing as soon as practicable of becoming aware of the breach/threat to the assets or SMSF.
- 258 The management letter is an opportunity to meet the section 129 requirements and to suggest better and more efficient processes for the SMSF. Further, verbal discussion of the issues uncovered during the audit may assist in management of the SMSF.
- 259 Where the auditor has issued a section 129 and/or a section 130 letter to a trustee, the auditor ensures a response is received and that the proposed action is appropriate. If a response is not received within the specified time, or if the proposed action is not considered appropriate, the auditor may report the matter to the ATO.

### **Compliance Testing**

- 260 The ATO publish a compliance checklist for SMSFs periodically which can be used as an aid in conducting and documenting the compliance audit. As the requirements of the SIS Act and SIS Regulations will change from time to time, this compliance checklist is not included in this Guidance Statement, however it can be obtained from the ATO's website [insert hyperlink].
- 261 The majority of the compliance testing for an SMSF concerns:
- assessing whether the fund is established for the sole purpose of funding a member's retirement benefit or death or disablement benefit;
  - establishing and applying an investment strategy;
  - compliance with the investment standards;
  - compliance with the contributions standards;

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- compliance with the payment of benefit standards; and
- compliance with the various record keeping requirements contained in the SIS Act and SIS Regulations.

*Sole Purpose Test*

262 In general, the SMSF's primary aim and purposes is to fund a member's retirement or provide a benefit upon death or disability. This is known as the "sole purpose" of superannuation. The sole purpose test as it is known, is a conceptual test that when satisfied demonstrates that the SMSF has in fact been maintained for the "sole purpose" of funding a member's retirement or a benefit upon their death or disability.

263 The majority of the compliance testing surrounding the sole purpose test involves assessing whether a course of action by the Trustees was beneficial for the fund and enhanced the fund's ability to fund a retirement benefit or it was beneficial for someone else or another entity.

264 Compliance with the sole purpose is generally indicated when:

- transactions are at arm's length and are conducted on a commercial basis - ensuring that no person or entity is favoured or overly advantaged by a transaction or action by or with the fund;
- the fund does not borrow – ensuring that the assets of the fund are protected by prohibiting using the fund's assets as security for a loan;
- the fund does not lend money or assets to members, trustees or their associates provide financial assistance to members, trustees or relatives – the fund does not prematurely provide a financial benefit to a member, trustee or provide a relative of a member with a benefit that they would not normally receive;
- the fund does not acquire assets from related parties – apart from a few exceptions, legislation prohibits funds from purchasing assets from related parties and thus ensuring that the fund pays and receives services and investments at market values; and

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- the fund observes the in-house asset rules – ensuring that the assets of the fund are not jeopardised by being tied up in a related employer or entity or the member or trustees' personal affairs.

265 Assessing whether a fund has complied with the sole purpose test is a matter for professional judgement and interpretation of the circumstances where the auditor uses their experience, training and if applicable, the auditor's prior knowledge of the SMSF and audit experience, to determine compliance. Whilst quantitative factors are generally unavailable to assist the auditor gauge compliance, qualitative factors as discussed in para XXX (Materiality) can assist the auditor form a conclusion on whether a fund has complied with the sole purpose test

*Investment Strategy*

266 The SIS Act requires the Trustees of an SMSF formulate and give effect to an investment strategy. In determining the investment strategy Trustees are required to consider the circumstances of the fund, including :

- the risks involved in making each investment;
- the likely return from making each investment;
- the range and diversity of investments;
- any risks coming from limited diversification;
- the liquidity of the fund's investments;
- expected cash flow requirements, and
- the ability of the fund to meet its existing and prospective liabilities such as paying benefits to its members.

267 The Trustee is responsible for establishing the investment strategy. An investment strategy is ordinarily documented in writing. There is no specific requirement in SIS for an auditor to address the adequacy of the investment strategy, however, the auditor assesses that the Trustees has properly considered the risk, diversity and liquidity aspects in the formulation of the strategy.

268 Auditors need to be aware of the performance of the fund and any material diminution, rapid or otherwise, in the value of the fund

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assets. For SMSFs that have lifetime complying pensions or other similar benefits, the auditor is required to implement additional procedures to test whether the SMSF maintains its liquidity position and will be able to fund the pension liability. Actuarial assistance may be required to assess this.

*Investments made according to investment strategy*

- 269 The auditor ordinarily reviews the investment strategy at least annually to assess whether the investments made during the period under review are invested according to the investment strategy as provided and approved by the Trustees. Auditors enquire whether the Trustees have reviewed or modified their investment strategy during the period to accommodate the SMSF's changing needs and changes in the investment environment.
- 270 If the auditor determines that the investments undertaken are not in accordance with the investment strategy, the auditor ordinarily informs the Trustee in their management letter or audit clearance letter.

*Investment restrictions*

- 271 The SIS Act does not prescribe the types of investments and assets that a superannuation fund may hold. Rather, the SIS Act requires Trustees establish an investment strategy and invest according to the strategy. However, the SIS Act does contain a number of investment prohibitions that Trustees are required to observe.
- 272 In performing their audit, the auditor ordinarily ascertains whether the investments made actually satisfy the sole purpose test and they generally examine the appropriateness of the investment made with respect to the investment standards. In particular, they examine the credibility of the investment which includes
- examining the documentation supporting the investment;
  - whether it was undertaken on a commercial or arm's length basis;
  - looking behind the investment to assess what the fundamental transaction is insofar as they are able; and
  - evaluating whether other entities may be benefiting disproportionately from the transaction apart from the SMSF.

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- 273 If in conducting their tests, the auditor after making appropriate enquiries is unable to ascertain the facts behind the investment, and whether the SMSF trustees have invested with the sole purpose test in mind or indeed satisfied the sole purpose test, then the auditor may consider providing an adverse opinion on the compliance component of the SMSF audit.
- 274 In conducting the audit, the auditor ordinarily looks at the investments over the full period – not just year-end balances. Breaches of the investment standards may occur throughout the year. For example, the in-house asset restrictions apply all year-round and if the value of the fund drops due to movements in securities values, then the in-house asset percentage may exceed its permitted limit.
- 275 Finally, when evaluating a transaction, the auditor ordinarily assesses whether the transaction was performed on an arm's length basis and whether normal commercial terms of trade are being applied when dealing with the assets and investments of the SMSF. Generally, the whole transaction is assessed and this includes ensuring that the settlement terms, interest rate or warranties or other such things are commercial in nature. For example, this may involve establishing that a commercial rental was being achieved or that settlement terms on a contract were not disadvantageous to the SMSF.

*Investment restrictions - Loans and financial assistance to members and/or member's relative*

- 276 SMSFs are generally not permitted to lend money or provide financial assistance to Trustees, members or their relatives. The auditor ordinarily examines the withdrawals of funds or transfer of assets over the period under review to test for unexplained withdrawal(s) to ascertain whether any financial benefit has been provided to a member, trustee or associate of the member or trustee. The SIS Act defines associate very broadly<sup>27</sup> and an auditor ordinarily reviews any withdrawals made with this definition in mind.
- 277 Similarly, the auditor ordinarily reviews the ownership of the fund's assets to ensure that a charge or other form of security has not been taken over any of the SMSF's assets. This ensures that a loan or similar benefit has not been secured on the assets of the fund and a

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<sup>27</sup> An associate for the purposes of the SIS Act is defined as [insert .....]

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benefit provided to a member or a trustee or an associate of the member or trustee.

*Investment restrictions - borrowings*

- 278 SMSFs are not generally allowed to borrow money. Permitted borrowings are to pay a benefit or surcharge liability for a maximum of 90 days or for a maximum period of 7 days to cover settlement on a security transaction. Both exceptions only permit borrowing to 10% of the fund's assets.
- 279 The auditor ordinarily reviews the bank statement(s) to ascertain whether any borrowing(s) were made during the period. This can extend to a small overdraft for a few days to a larger amount outstanding which is in excess of the maximum 10% of the fund's assets.
- 280 SMSF's are not sources of funds for Trustees to utilise for their own purposes at their own will. Auditors review transactions over the year to check for withdrawals and deposits of the same amount that may be being used to assist the members and/or Trustees or associates of the members or Trustees.

*Investment restrictions - acquisition of assets from related parties*

- 281 Apart from a few limited exceptions, SMSFs are not permitted to acquire any assets from related parties. The exceptions are purchasing listed securities at market value; purchasing business real property at market value and purchasing in-house assets as long as the investment does not exceed 5% of the fund's assets.
- 282 With respect to the exceptions, business real property generally relates to land and buildings used wholly and exclusively for business. It does not extend to residential properties.
- 283 Ordinarily, the auditor examines the documentation surrounding the purchase of any investment to ascertain whether the entity selling the investment was an associated party. This may involve checking the contract or sale document to confirm whom the parties to the transaction were and to the extent possible, confirming that the parties were not related or otherwise connected. To the extent necessary, the auditor ordinarily would satisfy themselves that the transaction undertaken was between third-parties and not associates of the SMSF's members or Trustees.

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*Investment restrictions – “in-house assets”*

- 284 “In-house” assets are generally loans to an associated entity or an investment in or with an associated entity– being individuals or companies/trusts controlled by the fund members and/or the Trustees. In-house assets include loans to, or investments in, an associated employer or an associate of the associated employer, or an asset subject to a lease between the fund and a related party.
- 285 The SIS Act has strict limits on the permissible “in-house asset limits”. The general limit is 5% of the fund’s assets but there are some grandfathering limits that permit higher levels of in-house assets. Auditors ordinarily examine the investments of the fund to identify potential in-house asset investments to ensure that the legislative limits are being complied with.
- 286 Ordinarily, the auditor observes that market rate interest is being paid and being remitted on the debt. Further, providing security on the loan only enhances the perception of a commercial reality. As the legislation calls for a continuous assessment over the period, the auditor ordinarily examines the in-house assets ratio on an ongoing dynamic basis.

*Investment in derivatives*

- 287 SMSFs may invest in financial derivatives. From an audit perspective, the auditor ensures that any investment in derivatives is permitted under the legislation as it stands at the time of the audit. Derivatives, due to their inherent nature, can be high risk and involve borrowings that may have recourse to the fund.
- 288 Auditors review any investment in derivatives to ascertain that the investments are in line with the investment strategy, any current legislative requirement and that the investment is not putting the assets of the fund at risk. Where the auditor is unsure of the legality of the investment, the auditor may need to seek legal opinion as to whether the investment meets the investment standards. Active trading of options could be construed as running a business and consequently, potentially in breach of the sole purpose test.

*Collectibles and exotic investments, memberships, holiday accommodation and ancillary benefits*

- 289 Collectibles are a special case of investment. Collectibles may have a dual purpose in that they may be sound investments but they potentially may provide some enjoyment of the asset prior to

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retirement, death or disablement. Collectibles and their compliance treatment is discussed below:

- Artworks – are allowable as long as they are not displayed or otherwise enjoyed. This is generally interpreted as not being on display at the member's, trustee's or associate of the fund's home or office or an home or office. Examples of complying artworks are those that are leased out to an independent third party or company at a commercial rate and are insured separately.
- Jewellery – is an allowable investment as long as is the item is not worn, displayed or lent to another person. It would be normal for the items to be stored in a bank safe deposit repository or similar off-site secure site.
- Classic cars – may be an allowable investment as long as they are garaged permanently and not driven. Some driving for maintenance or other display purposes may be appropriate but any excessive driving may breach the sole purpose test.
- Coins/stamps – are an allowable investment as long as they are not displayed. It would be normal for the items to be stored in a bank safe deposit repository or similar off-site secure site.
- Antiques – may be an allowable investment if the antique is not used, enjoyed or displayed in the member's/trustee's home or associate's home or office or other building owned by the member/trustee or associate. A commercial leasing arrangement with a third party may be allowable.
- Sporting memorabilia - may be an allowable investment if the items are not displayed or enjoyed in the member's/trustee's home or associate's home or office or other building owned by the member/trustee or associate.
- Wine – may be an allowable investment if the wine is stored correctly and sold when no longer required as an investment. The wine may not be purchased by the member's, Trustees or associates of the members/Trustees.
- Other collectibles – may be an allowable investment, however, the general principle of “not enjoying the asset prematurely” applies and the auditor ordinarily considers the full circumstances of the situation before ruling on the validity or otherwise of the investment.

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- 290 The treatment and classification of collectible investments is an area where the auditor exercises professional judgement to determine whether the investment is compliant with the sole purpose test. The auditor often considers the following with respect to collectibles:
- risk involved in making, holding and realising and the likely return from the fund's investments having regard to the fund's objectives and cash flow requirements;
  - the fund's composition of assets and/ or diversification;
  - liquidity, having regard to the fund's cash flow requirements and the likely market for some collectibles given potential difficulty in realising an asset; and
  - the ability of the fund to meet current and future liabilities.
- 291 Other membership investments such as ski lodge/country club or golf club memberships or similar membership investments providing a right to use a facility or service are generally not permissible investments and holding these investments ordinarily would be a breach of the SIS Act.
- 292 Investments in broadly held schemes or arrangements to develop and sell recreational property may be appropriate investments if there is no residual entitlement to utilise the facilities or otherwise enjoy the benefits of the development.
- 293 Investments in holiday houses or apartments need to meet stringent conditions to be considered complying investments. The accommodation needs to be rented out for a commercial rent and/or be available for rental all year round. The Trustees, members or their associates are not permitted to rent or otherwise enjoy the facilities of the accommodation at any time during the year. If they do rent the accommodation then this would normally be a breach of the SIS Act and SIS Regulations.
- 294 Investments that provide an ancillary benefit as part of the investment generally need to be examined as to whether the investment as a whole meets the sole purpose test. Ancillary benefits include, but are not limited to, such things as a discount on a product or service, priority access to a facility or service or free products or services.

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*Units in a related unit trust*

- 295 Investments in related unit trusts where the Trustees/members of the SMSF are the Trustees of the related unit trust are common SMSF investments. The auditor ordinarily considers the sole purpose test in light of the investments held in and by the related unit trust to ensure that the investments held are for the long-term provision of benefits to members and not to provide short term assistance to the Trustees, members or associates of these individuals.
- 296 The major consideration for related unit trusts for the auditor is compliance with the SIS Investment standards and the sole purpose test. Of particular concern are the potential borrowings the trust may have and whether there is any recourse to the fund. Any borrowings by the trust must be in accordance with the SIS legislation and specialist legal advice sought if the auditor is unsure or needs confirmation that the investment is appropriate or otherwise.
- 297 With respect to unit trusts, the auditor ordinarily requests a set of accounts for the trust and its taxation return or distribution statement to identify income, net asset value and any debts owing by the unit trust. In certain cases the trust deed may be required to assist the auditor assess compliance.

*Contribution restrictions*

*Appropriateness of contributions*

- 298 An auditor ordinarily examines all contributions made to the SMSF to assess whether they have been made in accordance with the Trust deed, SIS Act and SIS Regulations and that in accepting the contribution the SMSF is not contravening the SIS Act and SIS Regulations. Crucial to the assessment is the type of contribution made, the age of the member and the source of the contribution.
- 299 The factors to consider in verifying the appropriateness of contributions received include:
- the type and source of contribution;
  - the age of the member;
  - whether a tax file number has been provided;
  - the amount contributed, and

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- the timing of when the contribution was made.

The auditor ordinarily assesses each contribution with the above factors in mind to decide on the appropriateness or otherwise of the contribution.

- 300 Special restrictions apply to contributions for those members over age 65. For such contributions, auditors test that the contributions have been made within the various restrictions applied to both mandated concessional (required by law such as Super Guarantee contributions or an Award/AWA/EBA agreement) and non-mandated non-concessional contributions (voluntary contributions).
- 301 With respect to contributions for those over 65 where there is a work test involved and the auditor would ordinarily satisfy themselves that any legislated condition for accepting the contribution(s) have been met.
- 302 With the introduction of contribution caps, the auditor needs to be aware of the caps for concessional and non-concessional contributions and pay special attention to contribution amounts in excess of the caps. The auditor may need to make additional enquiries of the employer or trustee to validate the amounts involved. Significant tax penalties may be levied for contributions in excess of the cap and this will affect both the member and the fund's taxation calculation.
- 303 The auditor ordinarily checks to see that the treatment of any taxable contributions has been appropriate and allocated to the correct member account given the documentation that may have been provided by the member or member's employer. The auditor also examines the classification of contributions to validate their appropriate treatment.
- 304 With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated correctly.

*In-specie contributions*

- 305 In-specie contributions are contributions to an SMSF where a physical asset (e.g. a commercial property) or an intangible asset (e.g. a share, or an option) are contributed to the fund on behalf a member without any cash being exchanged.

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306 Where contributions are accepted in- specie, the auditor ensures that the SIS Act prohibitions on acquiring assets from related parties (including members) have not been contravened and that the trust deed permits in-specie contributions. To ensure that the SIS Act prohibitions on acquiring assets from a related party are not contravened, an auditor ordinarily investigates all non-cash contributions to the SMSF. For example, contributions of residential properties from members into the fund would not breach the contributions prohibitions but would breach the related party transaction. Further, the auditor ordinarily assesses whether the in-specie contribution is within the contribution caps. Finally, the auditor assesses that any in-specie contribution is valued fairly.

*Benefit payment requirements*

307 An auditor ordinarily examines all benefit payment made to the member to assess whether they have been made in accordance with the SIS Act and SIS Regulations. Crucial to this assessment is whether a condition of release criteria has been met to allow the payment of a benefit. This applies equally to both lump sum payments and pension type benefits.

308 Benefits are generally triggered due to a condition of release as defined in the SIS Act and the SIS Regulations and as provided in the SMSFs governing rules as contained in the SMSF's trust deed. These include retirement, partial or semi-retirement, death, total and permanent disability or total and temporary disability. Other conditions of release do exist such as financial hardship or a request to rollover.

309 In relation to verifying the appropriateness of benefits, the auditor considers:

- whether the circumstances of the individual in triggering the payment of the benefit are consistent with the SIS Act and SIS Regulations and the SMSF's governing rules;
- whether the member has satisfied the payment criteria; and
- whether the benefit has been calculated correctly in accordance with the method provided in the Trust deed and the governing rules.

310 The auditor, ordinarily tests the validity of the payment by checking to source documents that the benefit payment is bona fide – such as viewing a signed letter to the Trustees requesting the benefit be paid.

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- 311 Retirement is generally evidenced by a statutory declaration or similar document stating that the individual has retired and will not be seeking paid employment in the future. Retirement generally triggers either a lump sum payment or a pension. Partial retirement after attaining a certain age may also satisfy a condition of release which, in turn, can trigger a Transition to Retirement Income Stream<sup>28</sup>.
- 312 Total and permanent disablement (TPD) generally requires at least two appropriately qualified medical practitioners to certify that the individual is unlikely to work in paid employment or meets such similar definition as may be contained in the Trust deed or governing rules of the SMSF. The SMSF may or may not have insurance for TPD.
- 313 With respect to death benefits, the auditor normally satisfies themselves that the member has died. Sufficient evidence is a funeral notice or similar or sighting a death certificate. The auditor normally verifies that the correct death benefit has been paid. Enquiries are generally made of whether any additional insurance benefit is payable. The trustee should be aware that tax deductions may be available for anti-detriment payments.
- 314 If an appropriately witnessed and executed binding death benefit nomination has been made, and it is within the three year time limit since it was made, the auditor ordinarily enquires to ensure that the benefit was paid appropriately.
- 315 If the fund has an insurance policy covering total and permanent disability, total and temporary disablement or death or a combination of these benefits, the auditor ordinarily enquires to see if a claim has been made or paid to support the benefit. If the proceeds of any such claim have been paid, the auditor ordinarily checks to see that the benefit has been applied either to the member's account or legal personal representative.
- 316 The member's ability to receive a benefit normally depends on:
- the type of benefit the member has accumulated in the fund;

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<sup>28</sup> The Family and Community Services Act previously called these pensions Transition to Retirement Pensions (TRAPS).

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- whether any preservation restrictions apply to the benefit; and
- whether the rules of the SMSF permit the benefit to be paid at this point in time.

317 For pension payments, the auditor ensures that any payments meet the minimum or maximum payment conditions as stipulated in the SIS Act and SIS Regulations.

*Minimum benefits*

318 For defined benefit funds, the auditor ensures that the minimum benefit has been calculated correctly by reference to the Trust deed and the SMSF's records.

**Record Keeping Requirements**

319 A significant component of the SMSF audit is to check that appropriate records of the fund are being prepared, maintained and stored for the appropriate time as stipulated in the SIS Act and SIS Regulations. Financial accounts need to be kept for 5 years, with Trustee meetings being kept for 10 years.

320 Ordinarily, the auditor observes that the required documents – such as minutes of meetings, annual returns, financial records and accounts are being prepared, kept on a permanent file for the required period as stated in legislation. The auditor examines original documents or copies to support the conclusion that the record keeping requirement is being complied with. Some auditors may receive confirmation in the Trustee Representation letter that the records of the fund are being maintained according to the SIS Act and SIS Regulations and rely on that as appropriate audit evidence.

321 It should be noted that the SIS Act requires that the records be kept in English or a form that is readily convertible to English. Any overseas investment documentation is generally translated at the fund's expense into English. This facilitates more efficient and effective auditing and quality assurance.

**Reporting Requirements**

322 The reporting responsibilities of the auditor are detailed in the SIS Act. For the financial audit, the SIS Act requires the auditor to:

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- express an opinion on the financial statements of the SMSF presented for audit;
- express an opinion on the compliance of the SMSF with the SIS Act and SIS Regulations; and
- for the auditor to give the Trustees a report in the approved form within the prescribed time as set out in the SIS Regulations.

*Audit contravention reports*

- 323 The mechanism by which auditors communicate contraventions of the SIS Act and SIS Legislation to the ATO is via the 'Auditor Contravention Report' (ACR). The ATO periodically issue guidance on auditor's reporting obligations in respect of the contraventions of the SIS Act and SIS Regulations. Approved auditors are obligated to follow any guidance issued by the ATO in respect of ACRs and contravention reporting.
- 324 Where the ATO permits the auditor to utilise professional judgement with respect to reporting immaterial or inconsequential breaches, the auditor may not necessarily need to report every single breach of the SIS Act or SIS Regulations that they find.
- 325 In circumstances where the auditor has communicated with the Trustees in prior years about an immaterial breach and the Trustees have not acted upon the matters raised, the auditor ordinarily would consider issuing an ACR to the ATO regarding the breach.
- 326 For new funds established for less than 15 months, the ATO requires that all breaches of the SIS Act and SIS Legislation be reported to the ATO via ACRs.
- 327 All contraventions of the SIS Act and SIS Regulations are required to be communicated to the Trustees via the s.129 notice or management letter regardless of whether those contraventions have been reported in an ACR.
- 328 Auditors need to remain abreast of changes in reporting requirements as a result of changes to ATO policy or relevant legislation to ensure that they are meeting their reporting requirements.
- 329 If unsure about an act or situation, the auditor is free to obtain legal advice from an experienced superannuation lawyer as to whether an

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act of non-compliance or not has occurred. This act may prevent further action in the future. The auditor ordinarily obtains the trustee permission to this prior to seeking advice.

- 330 The ATO issue a compliance checklist that can be used by auditor of SMSFs for their use. The instructions for auditors of SMSFs provide questions and statements to consider when auditing a self managed super fund. The document reference is NAT16308. It is located at : (TO BE UPDATED AS DOCUMENT UNDER REVIEW).

**Conformity with International Pronouncements**

- 331 There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

## **APPENDIX 1**

### **ENGAGEMENT LETTER**

This Appendix provides additional explanatory guidance and/or illustrative examples to assist auditors with the application of the requirements of the Auditing Standard, but does not form part of or add to those mandatory requirements.

The following letter is not intended to be a standard letter. Engagement letters will vary from SMSF to another and from one period to the next.

Further guidance on this matter is available in ASA 210 *Terms of Audit Engagement*.

#### **Example Letter**

To the Trustees /Directors of Corporate Trustee

Australian Auditing Standards ASA 210 *Terms of Engagement* require that there must be a clear understanding in writing between the auditor and the trustees as to the extent of our audit duties and responsibilities. Accordingly, we set out our responsibilities below

#### **The objective and scope of the audit**

You have requested that we audit the [name of SMSF]'s (the fund) financial report which comprises the Statement of Financial Position as at 30 June 20XX, and the Operating Statement for the year then ended and the notes thereto attached. In addition, as the fund's appointed auditors we will also be auditing the fund's compliance during the same period with the Superannuation Industry (Supervision) Act 1993 (the SIS Act) and its Regulations.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial report.

#### **The responsibilities of the auditor**

We will conduct our audit in accordance with AUASB Auditing Standards and any requirements within the SIS Act and SIS Regulations as well as with reference to GS 0XXX *Financial and Compliance Audits of Self Managed Superannuation Funds*. Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report

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is free from material misstatement.

The annual audit of the financial reports and records of the superannuation fund must be carried out during and after the end of each year of income. In accordance with Section 113 of the SIS Act we are required to present the Trustee of the fund an audit report in the approved form by the day before the due date of the fund's combined regulatory and income tax return.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

We expect to provide you with a separate letter concerning any material weaknesses in the fund's system of accounting and internal controls that come to our attention during the audit of the financial reports. This will be in the form of a management letter.

**The responsibilities of the Trustees**

We take this opportunity to remind you that the responsibility for the preparation and fair presentation of the financial report is that of the Trustees. This includes maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the Fund. These duties are imposed by the Trust Deed, as well as the SIS Act. Our auditor's report will explain that the Trustees are responsible for the preparation and the fair presentation of the financial report in accordance with the applicable financial reporting framework and this responsibility includes:

- establishing and maintaining controls relevant to the preparation of a financial report that is free from misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

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As part of our audit process, we will request from those charged with governance written confirmation concerning representations made to us in connection with the audit.

Our audit report is prepared for the members of the fund and we disclaim any assumption of responsibility for any reliance on our report, or on the financial statement to which it relates, to any person other than the members of the fund, or for any other purpose other than that for which it was prepared.

**Independence**

We confirm that, to the best of our knowledge and belief, the engagement team meets the current independence requirements of the Code of Ethics for Professional Accountants as issued by the Accounting Professional and Ethical Standards Board in relation to the audit of the fund. In conducting our audit of the financial report should we become aware that we have contravened the independence requirements we shall notify you on a timely basis.

**Compliance with SIS Act and SIS Regulations**

As auditor of the Fund we will also ensure compliance with certain aspects of the SIS Act and Regulations. The specific sections and regulations are stated in our audit report, which is in the form approved by the ATO.

To ensure this is achieved, it will be necessary to examine the operations of the Fund for compliance with the prescribed sections of the SIS Act and Regulations.

**Report on Significant Matters**

Under section 129 of the SIS Act we are required to report to you in writing, if during the course of, or in connection with, our audit, we become aware of any contravention of the SIS Act or SIS Regulations which we believe has occurred, is occurring or may occur. We are also required under section 130 to report to you if we believe the fund may be, or may be about to become, in an unsatisfactory financial position. If we are not satisfied with your response as Trustees as to the action taken to rectify the situation or we receive no such response, we are obliged to report the matter to ATO.

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**Fees**

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus direct out of pocket expenses. Our fee for the audit of the fund for the year ended (date) is \$.[*Insert additional information here regarding fee arrangements and billings, as appropriate.*]

**Quality Control**

The conduct of our audit in accordance with AUASB Auditing Standards means that information acquired by us in the course of our audit is subject to strict confidentiality requirements. Information will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent. Our audit files may, however, be subject to review as part of the quality control review program of [a professional body] which monitors compliance with professional standards by its members. We advise you that by signing this letter you acknowledge that, if requested, our audit files relating to this audit will be made available under this program. Should this occur, we will advise you. The same strict confidentiality requirements apply under this program as apply to us as your auditor.

**Other**

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the [name of SMSF.]

Yours faithfully,

.....

Name and Title

Date

Acknowledged on behalf of the Trustees of [name of SMSF] by (signed)

.....

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Name and Title

Date

Draft

## **APPENDIX 2**

### **TRUSTEE REPRESENTATION LETTER**

This Appendix provides additional explanatory guidance and/or illustrative examples to assist auditors with the application of the requirements of the Auditing Standard, but does not form part of or add to those mandatory requirements.

The following letter is not intended to be a standard letter. Representations by Trustees will vary from SMSF to another and from one period to the next.

Although seeking representations from management on a variety of matters, a management representation letter may serve to focus management's attention on those matters, and thus cause management to specifically address those matters in more detail than would otherwise be the case. Auditors need to be aware of the limitations management representations provide as audit evidence. Further guidance on this matter is available in ASA 580 *Management Representations*.

#### **Example Letter**

Representation Letter From the Trustees

SMSF letterhead

Date

[Partner Name]

[Name of Audit Firm]

[Address]

Dear [Sir/Madam],

#### **Trustee Representation Letter**

This representation letter is provided in connection with your audit of the financial statements of the [SMSF Name] for the year ended (balance sheet date), for the purpose of you expressing an opinion whether the financial statements, are in all material respects, presented fairly in accordance with the accounting policies adopted by the fund and the Superannuation Industry (Supervision) Act 1993 and Regulations ("SIS").

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We acknowledge our responsibility for ensuring that the financial statements are in accordance with the accounting policies as selected by ourselves and requirements of SIS and confirm that the financial statements are free of material misstatements, including omissions.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. Sole Purpose Test

The sole purpose of the Fund is to provide retirement and/or death benefits to its members and/or beneficiaries

2. Accounting policies

All the significant accounting policies of the fund are adequately described in the financial statement and the notes attached thereto. These policies are consistent with the policies adopted last year

3. Fund books and records

We have made available to you all financial records and related data, other information, explanations and assistance necessary for the conduct of the audit; and minutes of all meetings of Trustees.

We have established and maintained an adequate internal control structure to facilitate the preparation of reliable financial statements, and adequate financial records have been maintained. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements

All records are kept for 10 years.

4. Asset form and valuation

The assets of the fund are being held in a form suitable for the benefit of the members of the fund and are in accordance with our investment strategy.

Investments are carried in the books at net market value or market value. Such amounts are considered reasonable in the light of present circumstances.

We have no plans or intentions that may materially affect the carrying values, or classification, of assets and liabilities.

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There are no commitments fixed or contingent, for the purchase of sale of long term investments.

5. Ownership and pledging of assets

The fund has satisfactory title to all assets appearing in the Statement of financial position. All investments are registered in the name of the fund, where possible, and are in the custody of the respective manager/Trustee.

No assets of the fund have been pledged to secure liabilities of the fund or of others.

6. Related parties

Related party transactions and related amounts receivable have been properly recorded or disclosed in the financial statements.

7. Subsequent events

No events or transactions have occurred since the date of the above referenced Financial Statements and Notes, or are pending, which would have a material effect upon the Fund's state of affairs at that date, or which are of such significance in relation to the Fund's affairs as to require mention in Notes to the Financial Statements in order to ensure they are not misleading as to the state of affairs of the Fund or of its operations.

8. Trust deed and Trustee's Responsibilities

The trustees have complied with all aspects of the Trustee Standards of the Superannuation Industry (Supervision) Act 1993 and accompanying Regulations (SIS).

The fund is being conducted in accordance with SIS and the governing rules of the SMSF.

There have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

9. Information to Members

Requests for information by members have been met in accordance with the standards.

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10. Outstanding legal action

The trustees confirm that there is no outstanding legal action or claims against the fund.

There have been no communications from any regulatory body concerning a contravention of SIS or which has occurred, is occurring, or is about to occur.

11. Additional Matters

Include any additional matters relevant to the particular circumstances, particularly in relation to management's intentions, for example:

- the work of a specialist has been used;
- justification for a change in accounting policy.

Yours faithfully

\_\_\_\_\_ [Director/Trustee]

\_\_\_\_\_ [Director/Trustee]

**APPENDIX 3**

**FINANCIAL AUDIT CHECKLIST**

The following suggested procedures are examples only and should be reviewed and adapted for the specific circumstances and audit risks associated with each SMSF audit engagement. It should also be noted that changes may be necessary when reliance is placed on internal controls. No allowance has been made for materiality or extent of testing.

The auditor will need to exercise professional judgement to ensure that the procedures adopted are appropriate to the audit engagement. The procedures detailed address only the financial audit of an SMSF.

<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>A</b>	<b>GENERAL</b>		
<b>A.1</b>	Has a current engagement letter been issued?		
<b>A.2</b>	If a new client has ethical clearance been received?		
<b>A.3</b>	Permanent file: Has the permanent file been updated with the following information carried forward from the prior year current file: <ul style="list-style-type: none"> <li>• signed Financial Statements</li> <li>• Regulatory Return</li> <li>• Minutes of Trustee meetings</li> <li>• Trust Deed and Amendments</li> <li>• Fund Summary (where available)</li> </ul>		
<b>A.4</b>	Trust deed Has the trust deed been amended since our last audit? If so, perform the following: <ul style="list-style-type: none"> <li>• Check that the deed amendment has been properly executed</li> <li>• consider obtaining confirmation of deed compliance with relevant SIS and CA regulations from solicitor or other party involved in the amendment</li> <li>• ensure you are familiar with the provisions of the new deed</li> </ul>		
<b>A.5</b>	Self Managed Superannuation Fund Does the fund meet the definition of an SMSF?		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>A.6</b>	Trustee minutes Review minutes for the year. Are there any matters that may impact our audit: <ul style="list-style-type: none"> <li>• of the financial statements?</li> <li>• of SIS compliance?</li> </ul>		
<b>A.7</b>	Regulatory matter: <ul style="list-style-type: none"> <li>• Are there are any outstanding requests from ASIC or the ATO.</li> <li>• Are there are any issues which are currently being considered by the ASIC or ATO</li> <li>• Has a notice of non-compliance has been issued by the ATO?</li> </ul>		
<b>A.8</b>	Has the superannuation fund been operated in accordance with the requirements of the trust deed? <i>[This question should be answered with regard to the conclusions drawn from the performance of all of the other audit procedures contained in this procedures checklist]</i>		
<b>A.9</b>	Representation Letter Has a letter of representation been obtained from the Trustee documenting significant representations made to us during the audit?		
<b>A.10</b>	Control environment Gain an understanding and assess the effectiveness of the client's control environment particularly in the following areas: <ul style="list-style-type: none"> <li>• control over the use of authorised cheque signatories</li> <li>• authorisation of benefit requests</li> <li>• authorisation of redemption of investments</li> <li>• reconciliation of investments</li> <li>• processing and allocation of contributions</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>A.11</b>	<p>Fraud</p> <p>Two types of fraud are relevant to financial statement audits.</p> <ol style="list-style-type: none"> <li>1. Fraudulent financial reporting</li> <li>2. Misappropriation of assets</li> </ol> <p>Consider whether business conditions and the client's key executives'/Trustees' motivations create an environment that is conducive to fraud.</p> <p>Consider incentives/pressures and opportunities for management or employees.</p> <p>Consider management or employee attitudes towards internal control environment.</p> <p><i>This should be done at fund level and at individual application/process level.</i></p>		
<b>B</b>	<b>CASH – BANK ACCOUNTS</b>		
<b>B.1</b>	<p>Ownership</p> <p>Vouch ownership of the bank accounts from the bank statement to the fund for each bank account.</p>		
<b>B.2</b>	<p>Review bank statements for the year. Has the fund had a debit balance at any time during the period?*</p>		
<b>B.3</b>	<p>Test large and unusual cash payments to ensure these are bona fide and correctly recorded and authorised</p>		
<b>B.4</b>	<p>Test large and unusual receipts to ensure these are bona fide and correctly recorded.</p>		
<b>B.5</b>	<p>Bank Reconciliations</p> <p>Review bank reconciliations for the year and the year end reconciliation:</p> <ul style="list-style-type: none"> <li>• following up and investigating large, unusual or recurring reconciling items</li> <li>• follow up uncleared deposits and unrepresented cheques ensuring correct cut off</li> <li>• trace unrepresented cheques to bank statement subsequent to year end</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>B.6</b>	Bank Audit Certificate Where banking activities are material to the audit, confirm the bank balance by way of a Bank Audit Certificate. Does the bank audit certificate show any evidence of the following:*		
	<ul style="list-style-type: none"> <li>• debit account balances</li> <li>• other liabilities to the bank and security for these</li> <li>• unused limits or facilities</li> </ul> <p><i>*If you have answered yes to these questions, consider whether borrowings have been made or there are liens over assets which may contravene SIS</i></p>		
<b>C</b>	<b>INVESTMENTS – FIXED INTEREST SECURITIES</b>		
<b>C.1</b>	Obtain direct third party confirmation of the balances held on deposit at year end.		
<b>C.2</b>	Sight certificate for evidence of existence and ownership.		
<b>C.3</b>	Where securities are traded electronically, obtain confirmation from the clearing house as to securities held		
<b>C.4</b>	Ensure securities held at year end are correctly valued at net market value/market value by reference to publicly available information.		
<b>C.5</b>	Review movements in securities and market values during the year to determine reasonableness of realised/unrealised gains/losses.		
<b>C.6</b>	Review returns from securities over the year for reasonableness..		
<b>D</b>	<b>INVESTMENTS – LISTED SECURITIES</b>		
<b>D.1</b>	Where the name of the investment holder does not stipulate that the investment is held by the Trustee in trust for the SMSF, sight declaration of trust to ensure ownership lies with the fund.		
<b>D.2</b>	Obtain statement of holding from Chess/Registry as to securities held.		
<b>D.3</b>	Confirm a sample of security holdings with share registries.		
<b>D.4</b>	Check that securities held at year end are correctly valued at market value or net market value by reference to Stock Exchange quoted closing price.		
<b>D.5</b>	Review acquisitions and disposals in holdings and market values during the year to determine reasonableness of : <ul style="list-style-type: none"> <li>• realised gains/losses</li> <li>• unrealised gains/losses</li> </ul>		

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Ref	Audit Procedure	yes/no n/a	w/p
D.6	Trace applications and redemptions to the investment statements and the bank statements.		
<b>E</b>	<b>INVESTMENTS – UNLISTED SHARES, TRUSTS &amp; MANAGED FUNDS</b>		
E.1	<u>Unlisted shares</u>		
E.1.1	<ul style="list-style-type: none"> <li>sight share scrip for evidence of existence and ownership</li> </ul>		
E.1.2	<ul style="list-style-type: none"> <li>ensure shares held at year end are correctly valued (e.g. by reference to the net tangible asset backing per share of the unlisted company)</li> </ul>		
E.1.3	<ul style="list-style-type: none"> <li>assess reasonableness of any gains/losses on movement in market value</li> </ul>		
E.2	<u>Unlisted unit trusts</u>		
E.2.1	<ul style="list-style-type: none"> <li>obtain direct third party confirmation of units held balance and value of units (at redemption price) at year end</li> </ul>		
E.2.2	<ul style="list-style-type: none"> <li>for unlisted unit trusts, obtain copy of the trust's financial statements and ensure units are fairly valued in accordance with net asset backing of the trust</li> </ul>		
E.2.3	<ul style="list-style-type: none"> <li>check that accounting is correct for distributions near balance date: either units valued ex distribution with a distribution receivable for distribution or units are valued cum- distribution with no receivable</li> </ul>		
E.2.4	<ul style="list-style-type: none"> <li>obtain transaction statement from unit trust and ensure cash inflows/outflows are reconciled per the Trustee/SMSF's cashbook records</li> </ul>		
E.2.5	<ul style="list-style-type: none"> <li>review movements in unit holdings and unit prices during the year to determine reasonableness of                             <ul style="list-style-type: none"> <li>realised gains/losses</li> <li>unrealised gains/losses</li> </ul> </li> </ul>		
E.2.6	<ul style="list-style-type: none"> <li>check distribution statements have been received for tax purposes</li> </ul>		
E.3	<ul style="list-style-type: none"> <li></li> </ul>		
E.4	<u>Units in PSTs/Managed funds</u>		
E.4.1	<ul style="list-style-type: none"> <li>obtain direct third party confirmation of unit balance and value of units (at redemption price) at year end</li> </ul>		
E.4.2	<ul style="list-style-type: none"> <li>obtain transaction statement from PST/Managed fund and ensure cash inflows/outflows are consistent with transactions per the Trustee/administrator's records</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>E.4.3</b>	<ul style="list-style-type: none"> <li>review movements in unit holdings, distribution reinvestments and unit prices during the year to determine reasonableness of                             <ul style="list-style-type: none"> <li>realised gains/losses</li> <li>unrealised gains/losses</li> </ul> </li> </ul>		
<b>E.4.4</b>	<ul style="list-style-type: none"> <li>confirm that the income allocated to the fund is net of tax</li> </ul>		
<b>E.4.5</b>	<ul style="list-style-type: none"> <li>obtain the audited financial statements of the PST and assess the reasonableness of the unit value in light of the underlying assets of the PST at the fund's balance date and the number of units on issue</li> </ul>		
<b>E.4.6</b>	<ul style="list-style-type: none"> <li>obtain external audit comfort letter on internal controls where available</li> </ul>		
<b>F</b>	<b>INVESTMENTS – PRIVATE UNIT TRUSTS</b>		
<b>F.1</b>	Private unit trusts		
<b>F.1.1</b>	<ul style="list-style-type: none"> <li>obtain confirmation of fund's holding in the unit trust.</li> </ul>		
<b>F.1.2</b>	<ul style="list-style-type: none"> <li>reconcile funds holding of units to unit trust register and unit trust certificates checking that the unit trust register up to date, with all issued units included</li> </ul>		
<b>F.1.3</b>	<ul style="list-style-type: none"> <li>sight copies of unit trust financial statements</li> </ul>		
<b>F.1.4</b>	<ul style="list-style-type: none"> <li>vouch major asset and liabilities in unit trust financial statements to supporting documentation to confirm the underlying value of the Fund's investment in the unit trust</li> </ul>		
<b>F.1.5</b>	<ul style="list-style-type: none"> <li>Trace applications and redemptions of units in unit trust to unit certificates and to bank</li> </ul>		
<b>F.1.6</b>	<ul style="list-style-type: none"> <li>Was the unit trust in existence prior to August 1999?</li> </ul>		
<b>F.1.7</b>	<ul style="list-style-type: none"> <li>Did the unit trust have borrowings (other than to the Fund) at August 1999, which can be used to acquire further units in the trust by the Fund*</li> </ul> <p>*This may indicate that further audit procedures are necessary to test with respect for compliance with the SIS Act and SIS Regulations</p>		
<b>G</b>	<b>INVESTMENTS – REAL PROPERTY</b>		
<b>G.1</b>	Perform a title search and if applicable sight the deed of trust to ensure the title is in the name of the Trustee on behalf of the fund and there are no encumbrances over this title		
<b>G.2</b>	If title is held in personal names, check that a declaration of trust exists for the property.		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>G.3</b>	Ensure that the property is valued at net market value, market value, or the Trustee's or independent valuer's valuation		
<b>G.4</b>	Obtain details as to the basis of the valuation of the property and assess any assumptions used for reasonableness		
<b>G.5</b>	Assess the appropriateness of the type of valuation with consideration as to the significance of the property to the fund as a whole, and our assessment of the risk of misstatement		
<b>G.6</b>	Where appropriate, ensure an independent valuation is performed on the property at least every 3 years		
<b>G.7</b>	Consider the carrying value of the property in light of current economic conditions, and determine whether conditions have changed so as to make the valuation out of date		
<b>G.8</b>	Consider the appropriateness of the lease term and rental amount to determine if conditions are on a commercial basis		
<b>G.9</b>	Determine who the lessee is and consider if additional disclosures need to be made (e.g. related party)		
<b>G.10</b>	Vouch additions, disposals and expenses to supporting documentation.		
<b>G.11</b>	If applicable, review the amortisation/depreciation schedule.		
<b>G.12</b>	Has appropriate landlords building and contents insurance been arranged?		
<b>H</b>	<b>INVESTMENTS – EXTERNALLY MANAGED</b>		
<b>H.1</b>	Investment agreement Obtain an understanding as to the terms of the agreement between the Trustee and the external manager, including the extent to which responsibility is delegated to the manager		
<b>H.2</b>	Obtain confirmation of investments held at year end from the external manager		
<b>H.3</b>	Check that investments held are in accordance with the guidelines set down by the Trustee in the management agreement.		
<b>H.4</b>	Where separate records are maintained by the Trustee, reconcile these to the reports produced by the investment manager to determine accuracy of contributions and benefits, and particularly to establish correct cut-off.		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>H.5</b>	Where access is allowed to the systems of the external manager obtain an understanding of and evaluate the effectiveness of the systems in place in respect of control over investments and the allocation of income.		
<b>H.6</b>	Where access is not available to the systems of internal control, obtain a letter of comfort (either Type A or Type B) from the investment manager's auditor in respect of control over investments, allocation of income and accuracy of tax balances.		
<b>H.7</b>	Where access is not available to the external manager's records, obtain a report from the investment manager's auditor in relation to specific financial statement assertions.		
<b>H.8</b>	Assess the quality of the evidence provided by the investment managers' auditor's reports and comfort letters by considering their content and applicable dates		
<b>H.9</b>	Where reports and letters of comfort from the investment manager's auditor are not available or not adequate for our needs, consider whether a qualification is required of our audit report		
<b>H.10</b>	Review movements in investment holdings and values during the year to determine reasonableness of determine reasonableness of <ul style="list-style-type: none"> <li>o realised gains/losses</li> <li>o unrealised gains/losses</li> </ul>		
<b>H.11</b>	Master Custodian		
<b>H.11.1</b>	<ul style="list-style-type: none"> <li>• obtain valuation reports at balance date and compare to fund accounts</li> </ul>		
<b>H.11.2</b>	<ul style="list-style-type: none"> <li>• separately review valuation of unlisted investments and consider confirming these separately</li> </ul>		
<b>H.11.3</b>	<ul style="list-style-type: none"> <li>• obtain comfort letters from the custodian's auditor in accordance with GS007</li> </ul>		
<b>I</b>	<b>CONTRIBUTIONS</b>		
<b>I.1</b>	Reconcile member and employer contributions between general ledger and transaction listings produced by the associated employer, if applicable, and to employer confirmation, paying particular attention to amounts remitted at the start or end of the year to determine whether there has been correct cut off.		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>I.2</b>	Accuracy of contribution allocation to member:		
<b>I.2.1</b>	For concessional contributions <ul style="list-style-type: none"> <li>• test to sponsoring or associated employer cash payments, if available, or obtain employer confirmation that contributions were made</li> <li>• test that they have been allocated to the member for whom they were remitted</li> </ul>		
<b>I.2.2</b>	For non-concessional contributions <ul style="list-style-type: none"> <li>• test to, where applicable, total of payroll deductions or employer remittances</li> <li>• test that they have been allocated to the member for whom they were remitted</li> </ul>		
<b>I.2.3</b>	For employer contributions to defined benefit funds <ul style="list-style-type: none"> <li>• ensure funding is in accordance with the rates recommended by the actuary</li> <li>• ensure the funding note in the financial statements accurately reflects actual contribution rates</li> </ul>		
<b>I.2.4</b>	Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.		
<b>I.3</b>	Completeness of contributions:		
<b>I.3.1</b>	<ul style="list-style-type: none"> <li>• Obtaining listing of contributions received by each member broken down into concessional and non-concessional contributions, noting the dates of receipt.</li> </ul>		
<b>I.3.2</b>	<ul style="list-style-type: none"> <li>• compare non-concessional and concessional contributions to previous year and assess for reasonableness in comparison with current year and, if applicable, associated employer's ability to contribute.</li> </ul>		
<b>I.3.3</b>	<ul style="list-style-type: none"> <li>• test movements in trustee numbers by testing listing, member's income if known.</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>I.4</b>	Where we are also auditors of the employer sponsor consider placing reliance on the system of internal controls, particularly where compliance testing has been performed during the course of the employer sponsor's audit. Where we are not the auditor of the employer sponsor consider whether any representation is required from the employer's auditor as to the payroll and cash payments systems affecting contributions to the SMSF. Obtain direct confirmation of contributions paid and agree to remittance advices received by the fund administrator or investment manager.		
<b>I.5</b>	Obtain listing of all Transfers in and vouch to ETP Notification ensuring that the transfer in, is from a complying and previously taxed source.		
<b>I.6</b>	Trace sample of contributions to employer remittance advice.		
<b>I.7</b>	If there any members over 65, ensure that the member is satisfying the work test.		
<b>I.8</b>	If there any members over 75, and if so are they receiving only employer mandated contributions.		
<b>J</b>	<b>CONTRIBUTIONS RECEIVABLE</b>		
<b>J.1</b>	Review the ageing of the amounts receivable and obtain explanation of any delay.* *Important to ensuring contributions caps are not breached.		
<b>J.2</b>	Through review of bank statements post balance date determine whether contributions receivable are correctly accrued		
<b>J.3</b>	Where contributions have subsequently been received trace amount accrued to the remittance advice, and bank or other transaction statement		
<b>J.4</b>	Where contributions have not subsequently been received * perform alternative procedures, such as: <ul style="list-style-type: none"> <li>• confirm amount outstanding with employer-sponsor or member</li> <li>• assess for reasonableness of accrual based on the pattern of contributions in other months</li> </ul>		

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Ref	Audit Procedure	yes/no n/a	w/p
<b>K</b>	<b>INVESTMENT INCOME</b>		
<b>K.1</b>	When testing receipt of income, ensure that the payment is made to the SMSFs bank account.		
<b>K.2</b>	Analytical Review Perform an analytical review of income generally and assess for reasonableness in comparison to: <ul style="list-style-type: none"> <li>• the prior year's income</li> <li>• the nature and level of investments for the year as compared to the nature and level of investments for the prior year</li> <li>• economic conditions and factors such as interest rates, property returns, share market conditions etc</li> </ul>		
<b>K.3</b>	Vouch major items of income.		
<b>K.4</b>	Agree dividends on listed shares to dividend yield or dividend payable quoted in the Financial Review, CGT Reporter or ASX Report.		
<b>K.5</b>	Agree interest rates to rates quoted by major banks or the rates quoted in the Financial Review.		
<b>K.6</b>	Movements in net market values are discussed under Investments in section E of this programme.		
<b>K.7</b>	Vouch amounts to subsequent receipt or perform other procedures to determine reasonableness of accrual.		
<b>K.8</b>	Review investment statements from fund managers to ensure all income recognised.		
<b>K.9</b>	Review rental agreement or statement from real estate agents to ensure all rental income is recognised, received regularly or accrued.		
<b>K.10</b>	Review unit trust financial statements to determine whether trust distributions paid		
<b>K.11</b>	Review dividend statements to ensure all dividend income received and franking credits recorded correctly		
<b>K.12</b>	Trace income to bank statements to ensure all income recognised, or that income has been reinvested		
<b>K.13</b>	Other accrued income		
<b>K.13.1</b>	<ul style="list-style-type: none"> <li>• Through testing of other income at XX determine whether income receivable is correctly accrued.</li> </ul>		
<b>K.13.2</b>	<ul style="list-style-type: none"> <li>• Ascertain the nature of the income (i.e. taxable or exempt).</li> </ul>		
<b>K.13.3</b>	<ul style="list-style-type: none"> <li>• Review statements to ensure no TFN tax withheld, and if so ensure treated correctly.</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>K.13.4</b>	<ul style="list-style-type: none"> <li>Check that any foreign tax credits are treated correctly.</li> </ul>		
<b>L</b>	<b>MOVEMENT IN INVESTMENT VALUE</b>		
<b>L.1</b>	<b>Review Calculation</b> Review calculation of the Movement in Investment Value to ensure performed correctly in accordance with Notes to the financial statements		
<b>L.2</b>	Check that basis for calculating change in value is disclosed in notes to accounts		
<b>L.3</b>	Ascertain whether return on investment is reasonable compared with declared rates of return.		
<b>L.4</b>	Check that separate calculations performed for realised and unrealised investments.		
<b>L.5</b>	Check that change in net market or market value only includes unit linked investments and not interest bearing investments.		
<b>M</b>	<b>EXPENSES &amp; ACCOUNTS PAYABLE</b>		
<b>M.1</b>	<b>Analytical Review</b> Perform an analytical review of expenses generally and assess for reasonableness in comparison to the prior year's expenditure		
<b>M.2</b>	<b>Vouch major items</b> Accounting fees, administration fees to the agreement with the administrator <ul style="list-style-type: none"> <li>agree management fees to the agreement with the investment manager</li> <li>movements in net market values where there are losses during the period are an expense of the fund</li> </ul>		
<b>M.3</b>	Are there any sundry accounts or benefits payable? If yes for sundry accounts payable:		
<b>M.3.1</b>	<ul style="list-style-type: none"> <li>vouch significant amounts to invoices or other supporting documentation</li> </ul>		
<b>M.3.2</b>	<ul style="list-style-type: none"> <li>search for unrecorded liabilities through testing of subsequent payments, review of Minutes etc.</li> </ul>		
<b>M.4</b>	<b>Prepayments</b> <ul style="list-style-type: none"> <li>Confirm or vouch prepayments and other current assets that are not investments.</li> </ul>		

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<b>N</b>	<b>BENEFIT PAYMENTS AND TRANSFERS</b>		
<b>N.1</b>	Obtain a listing of all benefits paid categorised by benefit type and reconcile benefits paid between general ledger and bank statement paying particular attention to amounts paid at the start or end of the year to determine whether there has been correct cut off		
<b>N.2</b>	For each benefit paid, copy <ul style="list-style-type: none"> <li>all relevant documentation and calculations,</li> <li>correspondence to member / rollover institution regarding monies paid</li> </ul>		
<b>N.3</b>	Test the calculation of benefits paid compliance with the trust deed:		
<b>N.3.1</b>	<ul style="list-style-type: none"> <li>where resignation or other benefits are based on an accumulation of contributions and earnings, test reasonableness of the benefit based on the number of years of membership, contribution amounts for the member, any earnings related contributions by the associated employer, concessional and non-concessional contributions and your knowledge of the fund's earning rates and reasonableness of interim earning rate calculations. Agree member information to Trust minutes and records.</li> </ul>		
<b>N.3.2</b>	<ul style="list-style-type: none"> <li>for retirement or other defined benefits check calculation is in accordance with the trust deed and agree member's age, final average salary and years of service to payroll, personnel records or trust records</li> </ul>		
<b>N.3.3</b>	<ul style="list-style-type: none"> <li>for death benefits, sight death certificate</li> </ul>		
<b>N.3.4</b>	<ul style="list-style-type: none"> <li>did the deceased member have a binding death nomination (BDM) form. If so, was the benefit paid in accordance with the BDM</li> </ul>		
<b>N.3.5</b>	<ul style="list-style-type: none"> <li>for a total and permanent disability benefit, sight the medical certification regarding the ability of the member to work again.</li> </ul>		
<b>N.3.6</b>	<ul style="list-style-type: none"> <li>for a total and temporary permanent disability benefit, sight the medical certification regarding the ability of the member to work again</li> </ul>		

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<b>N.3.7</b>	<ul style="list-style-type: none"> <li>for a total and temporary permanent disability benefit, sight the medical certification regarding the ability of the member to work again</li> </ul>		
<b>N.4</b>	For each benefit paid, vouch		
<b>N.4.1</b>	<ul style="list-style-type: none"> <li>authority for benefit payment request, by signatory</li> </ul>		
<b>N.4.2</b>	<ul style="list-style-type: none"> <li>Perform and add check and review interest calculation on benefit calculation</li> </ul>		
<b>N.4.3</b>	<ul style="list-style-type: none"> <li>Trace payment of benefit to the bank statement</li> </ul>		
<b>N.4.4</b>	<ul style="list-style-type: none"> <li>Trace tax deducted and paid by Fund where appropriate</li> </ul>		
<b>N.4.5</b>	<ul style="list-style-type: none"> <li>Check that benefit calculated in accordance with Trust Deed</li> </ul>		
<b>N.4.6</b>	<ul style="list-style-type: none"> <li>Check that member's contributions 100% vested</li> </ul>		
<b>N.4.7</b>	<ul style="list-style-type: none"> <li>Check that company contributions vest in accordance with the SIS Regulations and Trust Deed</li> </ul>		
<b>N.5</b>	Sundry accounts or benefits payable		
<b>N.5.1</b>	<ul style="list-style-type: none"> <li>Determine accuracy of recorded amounts and search for unrecorded benefits payable through testing of subsequent payments</li> </ul>		
<b>N.5.2</b>	<ul style="list-style-type: none"> <li>Check that Superannuation payment statement is in accordance with SIS Regulations</li> </ul>		
<b>N.5.3</b>	<ul style="list-style-type: none"> <li>Confirm the benefit received by the beneficiary (i.e. Confirmation letter)</li> </ul>		
<b>N.5.4</b>	<ul style="list-style-type: none"> <li>For any death or disability benefit, ensure that corresponding Group Life recovery is claimed.</li> </ul>		
<b>N.5.5</b>	<ul style="list-style-type: none"> <li>Check that death benefit paid to the beneficiary noted in Trustee minutes</li> </ul>		
<b>O</b>	<b>PENSION PAYMENTS</b>		
<b>O.1</b>	Trust deed permits pensions <ul style="list-style-type: none"> <li>Check that Trust Deed makes provision for pension payments</li> </ul>		
<b>O.2</b>	Confirm request for payment <ul style="list-style-type: none"> <li>Sight Trustee minute confirming member's request for pension, and Trustee acknowledgement and agreement to pay pension</li> </ul>		
<b>O.3</b>	<ul style="list-style-type: none"> <li>Agree pension paid to payment summary issued, if under 60 years of age</li> </ul>		
<b>O.4</b>	<ul style="list-style-type: none"> <li>Trace pension paid to bank statements</li> </ul>		

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<b>O.5</b>	<ul style="list-style-type: none"> <li>For a transitional to retirement income stream, ensure any amounts over maximum annual pension amount is treated as an eligible termination payment</li> </ul>		
<b>O.6</b>	<ul style="list-style-type: none"> <li>Confirm receipt of pension where amount is material</li> </ul>		
<b>O.7</b>	<ul style="list-style-type: none"> <li>Where confirmation received, reference confirmation to workpapers</li> </ul>		
<b>O.8</b>	Account based income streams:		
<b>O.8.1</b>	<ul style="list-style-type: none"> <li>Check that members has been advised of the minimum limits for the year</li> </ul>		
<b>O.8.2</b>	<ul style="list-style-type: none"> <li>Check that the minimum pension has been paid at least annually</li> </ul>		
<b>O.9</b>	Transition to Retirement income streams:		
<b>O.9.1</b>	<ul style="list-style-type: none"> <li>Check that members has been advised of the minimum and maximum pension limits for the year</li> </ul>		
<b>O.9.2</b>	<ul style="list-style-type: none"> <li>Check that the pension has been paid at least annually and within minimum and maximum limits set</li> </ul>		
<b>O.10</b>	Market Linked Income Stream:		
<b>O.10.1</b>	<ul style="list-style-type: none"> <li>Check that member has been advised of pension for coming year</li> </ul>		
<b>O.10.2</b>	<ul style="list-style-type: none"> <li>Check that members has been advised of the minimum and maximum pension limits for the year</li> </ul>		
<b>O.10.3</b>	<ul style="list-style-type: none"> <li>Check that pension is paid at least annually</li> </ul>		
<b>O.11</b>	Complying / Non- Complying Pension:		
<b>O.11.1</b>	<ul style="list-style-type: none"> <li>Check that member has been advised of pension for coming year</li> </ul>		
<b>O.11.2</b>	<ul style="list-style-type: none"> <li>Check that pension is paid at least annually</li> </ul>		
<b>O.11.3</b>	<ul style="list-style-type: none"> <li>Check that correct indexation being used (as determined when pension established)</li> </ul>		
<b>O.11.4</b>	<ul style="list-style-type: none"> <li>Obtain actuary's certificate before lodgement of the fund's tax return</li> </ul>		
<b>P</b>	<b>LIABILITIES</b>		
<b>P.1</b>	List all Liabilities		
<b>P.2</b>	Obtain back-up support for each liability account, or that amount and nature of accrual appears reasonable		
<b>P.3</b>	Check that liability was actually outstanding at year end		
<b>P.4</b>	Vouch payment of liability / accrual subsequent to year end		
<b>P.5</b>	Review aging of liabilities/payables and comment on any delay in payment.		

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<b>P.6</b>	Vouch prior year payable/accrual as paid during the year, or else re-accrue or adjust against income/expense item		
<b>P.7</b>	Obtain a list of all Benefits Payable at year end		
<b>P.8</b>	Agree a sample of the payables to the supporting documentation for benefit payments subsequent to year end to ensure the benefit was actually outstanding at year end.		
<b>P.9</b>	Review file of pending benefit payments to ensure that all benefits payable are taken up as payable		
<b>P.10</b>	Vouch payment of sample of benefits to bank statements subsequent to year end		
<b>P.11</b>	Vouch sample of prior year benefits payable and ensure either paid during the year or included as payable this year		
<b>Q</b>	<b>MEMBER ACCOUNT BALANCES</b>		
<b>Q.1</b>	Obtain listing of all members account balances and ensure final page of review showing total of breakup is on file		
<b>Q.2</b>	Check that fund review figure balances with vested figure in financial statements.		
<b>Q.3</b>	Check that vested benefit does not exceed net assets.		
<b>Q.4</b>	Testing of member statements as follows:		
<b>Q.4.1</b>	o ensure opening balance correct and accuracy of all calculations i.e. do add check, review of interest calc and tax calc, ensure admin. expenses and Ins. Premiums reasonable per agreement		
<b>Q.4.2</b>	o confirm vesting in accordance with SIS Regulations and Trust Deed.		
<b>Q.4.3</b>	o ensure members resignation benefit is at least members vested benefit as at balance date.		
<b>Q.4.4</b>	o vouch crediting rate to Trustee minute declaring rates.		
<b>Q.4.5</b>	o ensure contribution levels in accordance with the Deed or actuarial report		
<b>Q.4.6</b>	o vouch surcharge deducted to assessment issued by the ATO		
<b>Q.4.7</b>	o ensure investment choice per member selection, or default option where no selection made		
<b>Q.4.8</b>	o sight membership application for any new members		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>R</b>	<b>TAXATION</b>		
<b>R.1</b>	Is the fund a complying fund for tax purposes? If so: <ul style="list-style-type: none"> <li>ensure tax is provided at 15% on taxable income other than certain non-arm's length income and private company dividends* and discounted capital gain</li> </ul>		
<b>R.2</b>	If not: <ul style="list-style-type: none"> <li>ensure tax is provided at the top marginal rate for the year of income</li> </ul>		
<b>R.3</b>	Obtain or prepare the tax work papers including the reconciliation of prima facie tax to the tax provision (including all permanent and timing differences), and proof of deferred tax balances, and reference all amounts back to the audit work papers.		
<b>R.4</b>	Assessable income calculation:		
<b>R.4.1</b>	<ul style="list-style-type: none"> <li>Concessional (employer) contributions, including salary sacrifice shortfall components under the Superannuation Guarantee (Administration) Act</li> </ul>		
<b>R.4.2</b>	<ul style="list-style-type: none"> <li>Non-concessional member contributions, where the member has given a SXXX notice to the Trustee (i.e. substantially self-employed persons who will claim a tax deduction for their contributions)</li> </ul>		
<b>R.4.3</b>	<ul style="list-style-type: none"> <li>capital gains on investments (unrealised capital gains to be included as a timing difference, the change in indexation factors will be a permanent difference) Where the fund can use the CGT discount method, the fund should pay tax at 10% on those gains</li> </ul>		
<b>R.5</b>	Exclusions from assessable income: <ul style="list-style-type: none"> <li>income derived from, and capital gains realised in, investments in pooled superannuation trusts</li> <li>cash bonuses received on life insurance policies</li> <li>in the case of funds who are liable to pay current pensions, exempt current pension income</li> </ul>		
<b>R.6</b>	Check that correct treatment of the following where applicable: <ul style="list-style-type: none"> <li>imputation credits</li> <li>foreign tax credits</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>R.7</b>	Check that deductions are correctly calculated and include the following, where applicable: <ul style="list-style-type: none"> <li>• cost of death or disability benefits*</li> <li>• actuarial costs</li> <li>• fees paid to auditors and advisers</li> <li>• other amounts meeting the specific superannuation and general S8-1 conditions for deductibility</li> </ul>		
<b>S</b>	<b>OTHER AUDIT CONSIDERATIONS</b>		
<b>S.1</b>	Reserves <ul style="list-style-type: none"> <li>• schedule any movements in reserves</li> <li>• ensure all movements are in accordance with the fund's reserve strategy</li> </ul>		
<b>S.2</b>	Foreign investments and transactions in foreign currencies		
<b>S.2.1</b>	• ensure transactions are properly recorded		
<b>S.2.2</b>	• ensure correct exchange rates are used		
<b>S.2.3</b>	• ensure correct calculation of any foreign currency gains or losses		
<b>S.3</b>	Have there been any subsequent events, which would affect the accounts of the current or future periods? [Particular attention should be given to receipts and payments after balance date to ensure correct cut off of contributions and benefits, and to significant fluctuations in investment valuations]		
<b>S.4</b>	Have there been any transactions with related parties? If so, ensure these transactions are properly disclosed in the related party note		
<b>S.5</b>	Are material commitments and contingencies properly disclosed? Review the following where applicable: <ul style="list-style-type: none"> <li>• Trustee minutes</li> <li>• solicitors' representations</li> <li>• Trustees' representations</li> <li>• contracts with investment managers</li> </ul>		
<b>S.6</b>	Is the fund a defined benefit fund?		
<b>S.6.1</b>	If so: <ul style="list-style-type: none"> <li>• ensure actuarial reviews are performed every three years</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>S.6.2</b>	<ul style="list-style-type: none"> <li>obtain most recent actuarial report and review for reasonableness of assumptions regarding interest rates, contribution rates, administration and other charges, in light of current conditions and in comparison to the previous actuarial review</li> </ul>		
<b>S.6.3</b>	<ul style="list-style-type: none"> <li>ensure the information on which the actuarial review is based is correct, including members' salaries, years of service and contribution rates</li> </ul>		
<b>S.7</b>	<p>Does the actuarial review of a defined benefit fund disclose a deficiency in accrued benefits?</p> <p>If so: *</p> <ul style="list-style-type: none"> <li>review the actuarial funding recommendations to determine whether these are reasonable given the deficiency</li> <li>ensure the employer sponsor and the Trustees are taking remedial action</li> </ul>		
<b>S.8</b>	<p>Does the actuarial review of a defined benefit fund disclose a deficiency in vested benefits?</p> <p>If so:*</p> <ul style="list-style-type: none"> <li>determine whether the employer sponsor and Trustees have taken immediate steps to cover the deficiency</li> <li>consider whether the audit report should contain a qualification</li> </ul>		
<b>S.9</b>	<p>Is this audit, an initial audit of the fund:</p> <p>If so, was this fund previously audited by another auditor? If yes:</p>		
<b>S.10</b>	Other Financial Statement Procedures		
<b>S.10.1</b>	<ul style="list-style-type: none"> <li>Have the assets and liabilities been presented in the broad order of the liquidity?</li> </ul>		
<b>S.10.2</b>	<ul style="list-style-type: none"> <li>Do comparatives agree to prior year audited financial statements?</li> </ul>		
<b>S.10.3</b>	<ul style="list-style-type: none"> <li>Do the financial statements add including notes?</li> </ul>		
<b>S.10.4</b>	<ul style="list-style-type: none"> <li>Check cross referencing of notes, page numbering</li> </ul>		
<b>S.10.5</b>	<ul style="list-style-type: none"> <li>Have notes to the financial statements been audited?</li> </ul>		
<b>S.10.6</b>	<ul style="list-style-type: none"> <li>Have disclosures within the notes to the financial statements accounting framework used to prepare the accounts and have they been prepared in a consistent manner?</li> </ul>		
<b>S.10.7</b>	<ul style="list-style-type: none"> <li>Have the policies been applied by the Fund?</li> </ul>		
<b>S.10.8</b>	<ul style="list-style-type: none"> <li>Are they consistent with prior years?</li> </ul>		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>yes/no n/a</b>	<b>w/p</b>
<b>T</b>	<b>MANAGEMENT REPRESENTATIONS</b>		
<b>T.1</b>	Obtain written representation from the Trustees, especially on matters material to the financial audit and compliance audit.		
<b>T.2</b>	Seek corroborative evidence on Trustees representation and evaluate the representations appear reasonable and consistent with the other audit evidence and conclusions.		
<b>U</b>	<b>COMMUNICATIONS WITH TRUSTEES</b>		
<b>U.1</b>	Check that that all relevant people are informed of the matters, if any, arising from the audit.		
<b>U.2</b>	Check that that any communication is sent on a timely basis		

**APPENDIX 4**

**ILLUSTRATIVE EXAMPLES OF INDEPENDENCE**

The following table provides guidance on some of the scenarios faced by practitioners when auditing SMSFs and the type of threats to independence the scenarios present. The table is based on the Accounting Professional Ethics Standards Board APES 110 *Code of Ethics for Professional Accountants*. This code of conduct has been adopted by CPA Australia Ltd, National Institute of Accountants and The Institute of Chartered Accountants in Australia and is applicable to their members.

Situation	Type of threat present to auditor					Commentary
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
Sole practitioner preparing accounts and performing audit of financial reports	X	X				Auditor is reviewing their own work.

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Sole practitioner with qualified staff with practitioner preparing accounts and staff auditing the financial reports					X	As the staff are ultimately employed by the sole practitioner, it is questionable whether their opinion is objective as they may be subject to dismissal if they are modify the financial report
Sole practitioner providing financial advice and auditing the SMSF	X	X				Auditor is reviewing their own work; and the provision of financial advice may be highly remunerative and impede independent thought
Two partner practice where the partners audit the other partner's SMSFs and there is no "chinese wall" <sup>29</sup> . Common staff prepare the financial reports	X			X		
Two partner practice where the partners audit the other partner's SMSFs and there is a robust "chinese wall".						Overall, the threats to independence are significantly reduced due to the

<sup>29</sup> A "Chinese wall" is taken to be an artificial construct or "wall" between the two parts of the same organisation that assists with managing conflicts of interest.

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Common staff prepare the financial reports						presence of a strong “chinese wall”
A partner in a two partner practice providing financial advice to the SMSF as well as auditing the SMSF. Common staff prepare the accounts	X	X				The auditor is reviewing their own work from the financial advice perspective and the auditor is also receiving income from the fin
A firm prepares the income tax return and also undertakes the audit the SMSF.	X					The revenue from the tax return may be jeopardised if the auditor’s report is modified.
A firm of several partners is very reliant on one client’s fees and the firm audits the SMSF with robust “chinese walls” in place.	X				X	If the firm were to lose the client they would suffer significant loss of revenue.
A member of the audit team having a close or immediate relationship with the trustees of a SMSF they are auditing				X		The familiarity of the audit team member with the Trustee compromises independence
One partner in a multi-partner practice has had the client for “years” and socialises with the client and audits the client’s SMSF				X		The long association with the client compromises objectivity.

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A sole practitioner, a two-partner firm or a multi-partner firm outsourcing the SMSF audit to another firm of approved auditors.						Importantly, the other firm should not be so dependent upon the SMSF audit work that the risk of losing the audit work poses a familiarity or intimidation threat.
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Overall, independence requires:

- *Independence of Mind* - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and.
- *Independence in Appearance* - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a Firm's, or a member of the Assurance Team's, integrity, objectivity or professional scepticism had been compromised.