

**GS 009**  
(month 2008)

# Guidance Statement GS 009

## *Financial ~~&~~ and 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 009 *Financial and Compliance Audits of Self Managed Superannuation Funds* as set out in paragraphs 1 to XX 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 009**

### ***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 (SMSF's) Special Purpose Financial Report<sup>1</sup>, 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).

#### **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 (~~Section~~ section 17A, SIS Act), are superannuation funds which satisfy the following conditions:
  - (a) They have fewer than five members;
  - (b) Each individual trustee or director of the corporate trustee is a member of the fund, unless it is a single member fund;

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<sup>1</sup> SMSFs prepare different special purpose financial reports depending on whether the fund is an accumulation fund (defined contribution) or a defined benefit fund or the benefit is wholly defined by reference to a life assurance policy. The specific reports are defined in paragraph 131.

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- (c) if it is a single member fund, the member is either:
- (i) ~~the sole director of the corporate trustee;~~
  - (ii) ~~one of two directors of the corporate trustee of whom the non-member director can be anyone apart from an employee, unless the employee is related who are related;~~ or
  - ~~(e)(iii) one of two individual trustees of whom the non-member trustee can be anyone apart from an employee, unless the employee is related are related, where the member is not an employee of the other director or trustee;~~
- (d) each member of the fund is a trustee or -director of the corporate trustee;
- (e) no member is an employee of another member, unless they are relatives; and
- (f) no trustee or director of a corporate trustee receives remuneration for any duties or services performed by the trustee or director in relation to the fund.

In circumstances where the SMSF fails to comply with this definition, it has up to six months to rectify the contravention before ceasing to be a SMSF<sup>2</sup>.

4 Allowable exceptions to the definition of SMSF are provided under subsections 17A(3) of the SIS Act where:

- (a) a legal personal representative is appointed trustee for a member who, either:
  - (iv) is under a legal disability (usually a member under 18 years old);
  - (v) for whom the representative holds an enduring power of attorney; or

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<sup>2</sup> Section 17A(4), SIS Act.

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(vi) is deceased, up until death benefits are payable; or

(b) a parent or guardian is appointed trustee for a member who is under a legal disability but does not have a legal personal representative.

45 SMSFs are governed by ~~governing rules, which include~~ the trust deed, requirements of the SIS Act and SIS Regulations and other documents, legislation or unwritten rules governing the establishment and operation of the SMSF. SMSFs complying with the SIS Act and SIS Regulations definition are eligible for taxation concessions and are regulated by the Australian Taxation Office (ATO).

56 The SIS Act (subsection 35C) requires SMSFs to be audited each financial year by an approved auditor<sup>3</sup>, who reports to the trustees in the “approved form”, as issued and updated from time to time, by the ATO<sup>4</sup>. The approved form of the auditor’s report includes opinions under two sections, Part A: financial report and Part B: compliance report.

67 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<sup>5</sup>. ~~The~~ Trustees of SMSFs are required to submit an Annual Return which contains the fund’s income tax return, member’s contributions and details the fund’s compliance with the SIS Act and SIS Regulations. Complying funds are granted in order to maintain their complying status and retain the taxation concessions. ~~extended to complying superannuation funds.~~

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

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<sup>3</sup> Approved auditor is defined in paragraph XX.

<sup>4</sup> The approved form auditor’s report, *Self managed superannuation fund independent auditor’s report* (NAT11446.08.2007), is available from the ATO’s website [www.ato.gov.au](http://www.ato.gov.au).

<sup>5</sup> The Annual Return combines the SMSF’s regulatory return, income tax return and member contribution statement into one return and was previously known as the Income Tax and Regulatory Return. The change is effective from 1 July 2008.

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~~89~~ 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), Standards on Assurance Engagements (ASAEs) or ~~taxation-other~~ legislation.

~~910~~ This Guidance Statement comprises:

~~(a)(b)~~ a general section which deals with matters common to both the financial and compliance audit;

~~(b)(c)~~ Part A dealing with the financial audit; and

~~(c)(d)~~ Part B dealing with the compliance audit.

~~1011~~ 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 the financial audit of a SMSF; and

(b) applicable Standards on Assurance Engagements (ASAEs), specifically ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASAE 3100 *Compliance Engagements*<sup>6</sup>, in which references to the “assurance practitioner” include an auditor conducting a compliance audit of a SMSF.

~~112~~ This Guidance Statement does not apply to Australian Prudential Regulation Authority (APRA) regulated superannuation entities<sup>7</sup>.

**Trustees’ Responsibilities**

~~1213~~ The responsibilities of the SMSF’s trustees are contained in the SIS Act, SIS Regulations and the trust deed. The trustees have ultimate responsibility for the compliance of the SMSF with the SIS Act and SIS Regulations and any other legislation, such as the taxation

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<sup>6</sup> ASAE 3100 is effective for periods commencing ~~XX-1~~ October 2008.

<sup>7</sup> Auditors of APRA regulated superannuation entities, particularly auditors of those funds known as small APRA funds, may find this Guidance Statement useful in designing, planning and ~~executing-conducting~~ their audits but it does not ~~specifically~~ relate ~~specifically~~ to APRA funds.

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legislation affecting SMSFs. Certain covenants ~~by each trustee affecting the behaviour of the trustees of a SMSF~~ are deemed to be contained in the SMSF's governing rules under section 52 of the SIS Act, which are in summary:

- (a) to act honestly;
- (b) to exercise care, skill and diligence;
- (c) to act in the best interests of beneficiaries;
- (d) to keep the money and assets of the SMSF separate from ~~the money and assets held personally by the trustees and from those of any that of the trustees or employer-/sponsor of the SMSFs;~~
- (e) not to enter into a contract or agreement that would hinder the trustees in properly performing their duties;
- (f) to formulate and give effect to an investment strategy;
- (g) to formulate and give effect to a reserves strategy<sup>8</sup>; and
- (h) to allow beneficiaries access to information and documents.

The trustees' compliance responsibilities are summarised in the ATO's guide for SMSF trustees *Role and responsibilities of trustees*.

14 The trustees of a SMSF ~~is-are~~ required, under the SIS Act, to ensure that financial reports of the SMSF are prepared and signed for each year of income and that an approved auditor is appointed, ~~no later than 30 days before the due date of the auditor's report.~~

**Auditor's Responsibilities**

~~1415~~ Approved auditors under the SIS Regulations 1.04 and Schedule 1AAA of the SIS Act are required to be an individual who is currently either:

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<sup>8</sup> ~~A reserves strategy is only required if reserves are held within the SMSF.~~

<sup>9</sup> The ATO's Guide *Role and responsibilities of trustees* (NAT 11032-07.2007) is available at [www.ato.gov.au](http://www.ato.gov.au).

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- (a) a registered company auditor;
- (b) a member of CPA Australia Ltd (CPA Ltd), The Institute of Chartered Accountants (ICAA) or the National Institute of Accountants (NIA);
- (c) a fellow or member of the Association of Taxation and Management Accountants (ATMA);
- (d) a fellow of the National Tax and Accountants Association Ltd (NTAA); or
- (e) the Auditor-General of the Commonwealth, a State or a Territory.

16 In addition, members of the professional accounting bodies are required to comply with competency requirements<sup>10</sup> when accepting and conducting SMSF audits. These requirements are imposed by virtue of their membership and include requirements to hold a practising certificate, maintain appropriate professional indemnity insurance, complete minimum continuing professional development in the audit of SMSFs and ensure staff have appropriate knowledge and experience and are properly supervised.

17 The auditor is required under the SIS Act to:

- (a) Provide an auditor's report to the trustees in the approved form;
- (b) Report in writing to a Trustee:
  - (i) Any contraventions, which they formed the opinion in the course of or in connection with the audit of the SMSF may have occurred, may be occurring or may occur, of the SIS Act or SIS Regulations (section 129, SIS Act); and
  - (ii) If the auditor forms the opinion in the course of or in connection with the audit of the SMSF that the SMSF is currently in or is likely to fall into an

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<sup>10</sup> Competency Requirements for Auditors of Self Managed Superannuation Funds (February 2008) issued by Representatives of the Australian Accounting Profession, CPA Ltd, ICAA and NIA.

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unsatisfactory financial position (section 130, SIS Act).

~~(b)(c)~~ Report in writing to the ATO using the approved form auditor/actuary contravention report (ACR)<sup>11</sup>:

- (i) Any ~~breaches~~ contraventions, which they formed the opinion in the course of or in connection with the audit of the SMSF- which may have occurred, may be occurring or may occur, of specified sections of the SIS Act or SIS Regulations which meet criteria set by the ATO (section 129, SIS Act); and
- (ii) If the auditor forms the opinion in the course of or in connection with the audit of the SMSF that the SMSF is currently in or is likely to fall into an unsatisfactory financial position (section 130, SIS Act, regulation 9.04 SIS Regulations);

~~(c) Report in writing to a Trustee:~~

- ~~(i) Any contraventions which may have occurred, may be occurring or may occur of the SIS Act or SIS Regulations (section 129, SIS Act); and~~
- ~~(ii) If the auditor forms the opinion that the SMSF is currently in or is likely to fall into an unsatisfactory financial position (section 130, SIS Act).~~

~~1618~~ The approved form of the auditor's report<sup>12</sup>, issued by the ATO, is divided into two parts:

- Part A: Financial Report, which requires the auditor to express an opinion on the financial report based on their audit, conducted in accordance with Australian [CJ1] Auditing Standards (ASAs); and

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<sup>11</sup> -The Auditor/actuary contravention report (NAT 11239-11.2007) is available on the ATO's website at [www.ato.gov.au](http://www.ato.gov.au).

<sup>12</sup> The approved form auditor's report, *Self managed superannuation fund independent auditor's report* (NAT11446.08.2007), is available from the ATO's website [www.ato.gov.au](http://www.ato.gov.au).

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- Part B: Compliance, which requires the auditor to express an opinion on compliance with sections and regulations of the SIS Act and SIS Regulations specified in the approved form based on their audit, conducted in accordance with applicable Standards on Assurance Engagements (SAEs).

~~4719~~ This Guidance Statement assists auditors to conduct the financial audit in accordance with the ASAs and the compliance audit in accordance with applicable SAEs, as well as assisting auditors to meet their other compliance reporting requirements.

*Conduct the financial audit in accordance with ASAs*

~~4820~~ 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~~has complied with the relevant

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ethical requirements, which include the fundamental principles of professional ethics:

- (i) integrity;
- (ii) objectivity;
- (iii) professional competence and due care;
- (iv) confidentiality; and
- (v) professional behaviour.

The engagement partner also forms a conclusion on compliance with the independence requirements. In addition, 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~~ sufficient and appropriate audit evidence to form an opinion 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

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of material misstatements in the financial report due to fraud; to an acceptably low level<sup>13</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 SMSF and recognise that non-compliance may ~~impact~~ materially ~~impact~~ upon the financial report. Non-compliance with requirements of the SIS Act, SIS Regulations or taxation legislation, such as the failure to meet the definition of a SMSF ~~or exceeding the contributions caps~~, may expose the SMSF to additional tax liabilities which may ~~impact~~ materially ~~impact~~ on the SMSF's financial report.
- (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 governance 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 SMSF 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.

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<sup>13</sup> Due to the limited number of people involved in the operation of the SMSF there may be a lack of opportunity to segregate duties appropriately, consequently the trustees or administrator may have an ability to override controls and auditors may wish to consider this in assessing consequential fraud risk. Risks of fraud ~~also~~ may ~~also~~ arise from third party advisors, investment managers or administrators. SMSFs are not afforded the same level of protection by the Government as APRA regulated funds, for which provision is made, in certain circumstances, for members to be compensated for losses incurred in the event of fraud.

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- (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 determine overall responses to assessed risks and design and perform further appropriate audit procedures to respond to the assessed risks. ~~This is done~~ in order to reduce the audit risk ~~to an acceptably low level. Audit risk is, being~~ the risk that the auditor will not detect material misstatements in the financial report and issue an inappropriate audit opinion, ~~to an acceptably low level.~~ Further audit procedures may comprise only substantive procedures or may include test of controls, when reliance is placed on the operating effectiveness of controls to reduce substantive testing.
- (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. Furthermore, 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 appropriateness as audit evidence of any control reports received from the service organisation. Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides further guidance to a ~~SMSF~~ auditor in obtaining ~~sufficient appropriate~~ ~~sufficient and appropriate~~ evidence when the SMSF uses a third party service organisation for investment management services, including investment administration, asset management or property management.
- (m) ASA 500 *Audit Evidence* requires the auditor to obtain ~~sufficient appropriate~~ ~~sufficient and 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

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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~~ sufficient and appropriate audit evidence at the assertion level.
- (o) ASA 508 *Enquiry Regarding Litigation and Claims* requires the auditor to obtain ~~sufficient appropriate~~ sufficient and appropriate audit evidence regarding whether all material legal matters have been identified, the financial impact of these matters and the adequacy of their accounting treatment. Material legal matters may include: the divorce of a member which may threaten the solvency of the SMSF, an ATO investigation into the ~~trustee~~ trustee or legal action commenced by the SMSF against the SMSF's administrators or investment managers, as ~~they~~ these examples all carry the risk of material financial consequences.
- (p) ASA 510 *Initial Engagements – Opening Balances* requires the auditor to obtain sufficient and 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~~ consistently applied consistently.
- (q) 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.
- (r) ASA 545 *Auditing Fair Value Measurements and Disclosures* requires the auditor to obtain ~~sufficient appropriate~~ sufficient and appropriate audit evidence that if fair value measurements and disclosures are made they are in accordance with the SMSF's financial reporting framework.
- (s) 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.

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- (t) ASA 570 *Going Concern* requires the auditor to consider the appropriateness of use of the going concern assumption in the preparation of the financial report.
- (u) ASA 580 *Management Representations* requires the auditor to obtain acknowledgement from management, usually the trustees in the case of a SMSF, that ~~they are~~ it is 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 the trustees.
- (v) ASA 620 *Using the Work of an Expert* requires the auditor, when using the work of an expert, such as an actuary or valuer, to obtain ~~sufficient appropriate~~ sufficient and appropriate audit evidence that such work is adequate for the purposes of the audit and to evaluate the professional competence of the expert. Further guidance is provided in GS 005 *Using the Work of an Actuary*.
- (w) 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 circumstances may dictate that, due to a conflict, a significant uncertainty, a limitation of scope or a lack of ~~sufficient appropriate~~ 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 specific circumstances it is appropriate to issue an emphasis of matter to highlight a particular issue.
- (x) ASA 710 *Comparatives* requires the auditor to qualify the auditor's report where the prior period's report was qualified and the matter remains unresolved, or where the financial report for the prior period was audited by another auditor and the incoming auditor is unable to obtain ~~sufficient appropriate~~ sufficient and appropriate audit evidence regarding the comparatives.
- (y) 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 auditor's report issued by the ATO.

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*Conduct the compliance audit in accordance with applicable ASAEs*

1921 Certain Standards on Assurance Engagements (ASAEs) are applicable to the conduct of the compliance audit of SMSFs, ~~as they are not concerned with the historical financial information.~~ In particular:

- (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 comply with the fundamental ethical principles, implement quality control procedures, meet acceptance and continuance procedures, agree the terms of the engagement in writing, plan and perform the audit to obtain ~~sufficient appropriate~~ sufficient and appropriate audit evidence on which to base their assurance opinion.
- (b) ASAE 3100 *Compliance Engagements* requires the auditor to form a conclusion on compliance with the relevant criteria and express an opinion using the overall compliance and assurance framework outlined in ASAE 3000. The relevant criteria are the SIS Act and SIS Regulations requirements incorporated in the approved form auditor's report.

As noted in the ASAEs, relevant ASAs may be useful in the conduct of a compliance audit.

**Preliminary Engagement Activities**

2022 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:

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

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These procedures are outlined below.

### *Acceptance and Continuance Procedures*

- ~~2123~~ Under the ASAs and ASAE 3000 the auditor only accepts or continues an engagement if nothing comes to the auditor's attention to indicate that the requirements of the fundamental ethical principles, the Auditing Standards and ASAE 3000 will not be satisfied.
- ~~2224~~ 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 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.

### *Ethical Requirements*

- (a) 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>14</sup>. ~~This code establishes the fundamental principles of professional ethics which include:~~
- ~~25~~
- ~~23~~ ~~ASA 220 Quality Control for the Audits of Historical Financial Information requires the auditor to consider the relevant ethical principles relating to the engagement to be undertaken which are:~~
- (a) integrity;
  - (b) objectivity;
  - (c) professional competence and due care;

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<sup>14</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 and Ethical Standards Board. This ~~code~~ Code of ~~conduct~~ Ethics 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.

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- (d) confidentiality; and
- (e) professional behaviour<sup>15</sup>.

The concept of independence is fundamental to compliance with the principles of integrity and objectivity.

- 26 Under ASA 220 *Quality Control for the Audits of Historical Financial Information* and ASAE 3100, the auditor ~~only~~ accepts an engagement only when the auditor is satisfied that they, and the engagement team if applicable, have met the relevant ethical requirements, ~~including compliance with the applicable independence requirements.~~
- ~~24~~ ~~This includes ensuring that t~~The auditor ensures that they possess, and or if applicable the engagement team conducting the audit ~~collectively~~ possess collectively, the appropriate capabilities, competence and time to conduct the audit in accordance with the ASAs, applicable ASAEs and legislative requirements.
- ~~25~~27 Capabilities and competence are developed through a variety of methods, including professional education, ~~continuing professional development~~ ~~including~~ training, ~~work practical~~ experience and coaching and mentoring by more experienced staff. Auditors comply with their professional body's ~~continuing education and professional development~~ competency requirements<sup>16</sup> which will assist them to maintain the competence, knowledge, skills and capabilities to perform SMSF audits satisfactorily.
- ~~26~~28 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 SMSF. 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 legislation and the operations of a SMSF.

*Independence*

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<sup>15</sup> APES 110 *Code of Ethics for Professional Accountants*, Subsection ~~290~~100.4.

<sup>16</sup> Competency requirements include Competency Requirements for Auditors of Self managed Superannuation Funds (February 2008) issued by representatives of the Australian Accounting Profession.

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~~2729~~ ASA 220 which applies to the financial audit of a 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. This requirement is mirrored in ASAE 3100 *Compliance Engagements* for compliance audits, which requires compliance with the fundamental ethical principles ~~of~~ for which the concept of independence is integral.

~~2830~~ Overall, independence requires<sup>17</sup> both:

- (a) 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
- (b) 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 engagement team's, integrity, objectivity or professional scepticism had been compromised.

~~2931~~ The applicable code of conduct of a professional accounting body provides a framework of principles that auditors and members of audit team use to identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats, or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised.

~~3032~~ When assessing independence the auditor ~~firstly~~ identifies firstly the threats to independence. The threats to independence in a SMSF audit engagement may include:

- *Self-interest Threat* ~~this is~~ 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 or

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<sup>17</sup> APES 110, section 290.8.

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member of the SMSF or the SMSF is the sole client or a significant client of the firm.

- *Self Review Threat* –this is 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 be, or be perceived to be, compromised. For example, when an audit team member provides advice on the accounting treatment of an event for the SMSF or provides actual financial advice to the SMSF.
- *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 SMSF or an employee of the accounting firm that prepared the SMSF accounts.
- *Intimidation Threat* - this is where-when 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 a trustee. 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 an auditor/actuary contravention report submitted to the ATO.

3133 The second step is to evaluate the significance of the threat(s) to independence.

3234 The third step is to identify the safeguards that are available against the threat(s) to independence in a SMSF audit engagement. Safeguards can be:

- (a) created by the profession, legislation or regulation;
- (b) within the SMSF; or

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(c) within the firm's own systems and procedures.

3335 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.
- Recommendations on independence from relevant regulators.

3436 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 ordinarily 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.

3537 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 have with the SMSF's trustees, financial adviser, accountants, administrator, actuary and any other person or organisation involved with the management or operation of the SMSF.

3638 Safeguards that auditors may apply to manage identified threats to independence may include:

- Segregation of the audit engagement from advisory or administrative work conducted for the SMSF, either by referral of the audit work to another firm, allocation of the audit engagement to a partner not involved in the other engagements with implementation of effective chinese walls between the audit engagement team and the other advisory teams or withdrawal from the audit.

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- Prohibiting the holding of direct, or material indirect, financial interests by the auditor in joint venture investments of the SMSF.
- Removal from the SMSF audit team of any personnel with a close relationship with the trustees of the SMSF or relatives of the trustees.
- ~~If the audit firm is unduly reliant on the audit fees from a particular SMSF advisor or administrator, it~~ Diversifying the client base to spread the source of revenue base so that the potential for undue influence is removed, where the audit firm is unduly reliant on the audit fees from a particular SMSF advisor or administrator.

3739 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.

3840 A number of practical examples of ~~independence-SMSF engagements and the threats to independence~~ are included in Appendix 5, which details the threats to independence which those engagements pose and appropriate safeguards which may address those threats.

*Professional judgement and scepticism*

3941 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 typically 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.

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*Quality Control*

**4042** 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:

- Leadership responsibility for overall quality ~~on~~ of the financial and compliance engagement.
- Consideration of whether members of the engagement team have complied with relevant ethical requirements.
- Forming a conclusion on compliance with relevant independence requirements.
- Requirements in relation to a Acceptance and continuance of client relationships and specific audit engagements have been followed and that conclusions reached are appropriate and have been documented.
- Assignment of audit engagement teams which possess collectively the appropriate capabilities, competence and time to perform the engagements in accordance with AUASB ~~Standards~~ [CJ2] and regulatory and legal requirements.
- Direction, supervision and performance of the audit engagement in accordance with AUASB Standards and regulatory and legal requirements, and for the auditor's report issued to be appropriate in the circumstances and supported by sufficient and appropriate audit evidence.
- Appropriate consultation on difficult or contentious matters both within the engagement team and with others within or outside the firm, with agreed conclusions documented and implemented.
- Adequate monitoring of quality.

*Agree the terms of engagement*

**4143** 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.

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4244 The trustees are required to appoint the auditor at least 30 days prior to the date of the auditor's report being due<sup>18</sup>. Either the Trustee may be involved in the selection and appointment of the auditor or the SMSF's accountants, administrators or financial planners may assist with the sourcing and recruitment of an auditor for the SMSF. In the latter case, the ~~trustees approve~~ trustees approve the appointment in writing before the audit commences usually by signing the engagement letter or indicating their approval in a Trustee minute.

4345 For a SMSF audit engagement, the engagement letter ordinarily:

- 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 complying with and auditing.
- Identifies the responsibilities of the trustees, including:
  - Maintaining an adequate internal control structure.
  - Preparing the SMSF's financial report.
  - Keeping the records of the SMSF secure and for the appropriate time.
  - ~~(e)~~• Conducting the affairs of the SMSF in a complying manner with all relevant SIS provisions and the Trust deed throughout the year.
- Sets out the reporting requirements of the auditor, including those imposed by sections 129 and ~~section~~ 130 of the SIS Act.

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<sup>18</sup> SIS Regulation 8.02A requires the Trustees to appoint the approved auditor at least 30 days prior to the date of the auditor's report. If they are appointed with less than 30 days until the audit report is due, then the auditor may report the contravention to the trustee under section 129 or decline the engagement. The auditor ensures that clients, which regularly instruct or appoint them, are aware of this Regulation.

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- Includes a notice to the trustees that the audit records and auditor's work may be subject to review by an auditor's professional body or the ATO.

4446 ASA 210 does not require engagement letters to be issued every year. H, however, on recurring audits, the auditor considers whether it is appropriate to confirm the terms of the engagement in writing due to the circumstances of the engagement, including when there is:

- A revision of the terms of the engagement.
- An indication that the trustees misunderstand the objective and scope of the audit.
- A change in trustees.
- A significant change in the nature or size of the SMSF.
- Significant changes in the SIS Act, SIS Regulations or other regulatory requirements.

4547 An example engagement letter is attached as Appendix 1.

**Planning**

4648 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.

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**4749** 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 level. ASAE 3100 requires the auditor to plan the compliance audit so that it will be performed effectively.

*Preliminary Understanding of the SMSF*

**4850** In conducting a SMSF audit, the auditor obtains a preliminary understanding of the SMSF, trust structure, investments and liabilities, administration, management and parties involved in the management and trusteeship of the SMSF. ~~This preliminary understanding is~~ 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 or~~ SIS Regulations and sufficient to design and perform further ~~evidence-evidence~~-gathering procedures. Additionally, ASA 250 requires the auditor to consider whether a SMSF has ~~previously~~ breached the SIS Act ~~and or~~ SIS Regulations ~~previously~~ and whether there is any outstanding correspondence or unresolved issue with the ATO. Importantly, the preliminary understanding provides the auditor with a frame of reference for exercising professional judgement throughout the financial and compliance audit engagement.

**4951** In gaining this preliminary understanding of the SMSF, the auditor reviews the current trust deed to ensure that:

- The trust deed was properly executed.
- The SMSF was established with either a corporate trustee or to pay a pension.
- The SIS Covenants are included.
- The trust deed ~~has~~ complies with or has a mechanism to comply ~~includes a deeming clause or similar clause to assist with maintaining the SMSF's compliance by assuming adoption of the appropriate legislative requirements into the trust deed to maintain the SMSF's compliance~~ with the SIS Act and SIS Regulations and changes thereto.
- The powers to accept contributions and pay benefits, in the form permitted by the SIS Act and SIS Regulations.

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A comprehensive list of considerations in examining the SMSF's Trust deed is included in Appendix 3 *Trust Deed Audit Planning Checklist*.

52 It is possible for the Trust Deed to be more restrictive than the SIS Act and SIS Regulations and prohibit or limit a Trustees actions or powers. However, if the Deed is more expansive than the SIS Act and SIS Regulations, then the SIS Act and SIS Regulations will prevail.

5053 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 properly to other audit team members, and facilitates their direction and supervision and the review of their work.
- Assist, where applicable, the coordination of work performed by other auditors, actuaries and experts.

5154 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.
- Potential compliance issues.
- The auditor's previous experience, if any, with the SMSF.

5255 The audit plan is reviewed annually to ensure that it is updated to reflect the current circumstances of the SMSF.

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*Preliminary Level of Materiality*

- ~~5356~~ The auditor considers materiality when determining the nature, timing and extent of audit procedures and evaluating the effect of misstatements identified in the financial audit or contraventions identified in the compliance audit. Materiality means that information which if omitted, misstated or not disclosed has the potential to adversely affect decisions made by users of the report<sup>19</sup>. An auditor's consideration of materiality is a matter of professional judgement, and is affected by the auditor's perception of the information needs of users and the level of audit risk.
- ~~5457~~ The auditor's preliminary assessment of materiality is ~~largely~~ based ~~largely~~ on quantitative factors, whereas when assessing the outcome of audit procedures, whether misstatements identified in the financial audit or contraventions identified in the compliance audit, the auditor considers both their amount (quantitative) and nature (qualitative).
- ~~5558~~ 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 XX and ~~for with~~ ~~respect to~~ the compliance audit see paragraph XX.

*Overall audit strategy*

- ~~5659~~ ASA 300 requires the auditor to establish the overall audit strategy for the financial audit and this is mirrored in the guidance in ASAE 3000 for the compliance audit. The overall audit strategy sets the scope, emphasis, timing, direction and conduct of the audit, and guides the development of the more detailed audit plan for the nature, timing and extent of ~~evidence-evidence~~-gathering procedures to be performed and the reasons for selecting them. For a SMSF audit the scope, timing and reporting format is ~~largely~~ predetermined ~~largely~~ by the SIS Act and SIS Regulations and the ATO as regulator. Furthermore, legislation dictates the form the approved form auditor's report takes and the manner of formal communication with the trustees.

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<sup>19</sup> ASA 320, para.6.

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- 5760** 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, including the resources required for the audit and supervision of the audit team. 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.
- 5861** Where 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 SMSF<sup>20</sup>.

*The Audit Plan*

- 5962** 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>21</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 audit plan documents the procedures proposed to be 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 review(s).
- 6063** 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.
- 6164** Often, the audit plan for a SMSF often takes the form of a checklist which assists in maintaining quality control for the engagement as required by ASA 220. However standardised checklists need to be tailored specifically to reflect the particular circumstances and nature of the SMSF and the audit evidence available.

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<sup>20</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>21</sup> Audit risk is the risk that a material misstatement will occur

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~~6265~~ A sample financial audit checklist is attached as Appendix 4 and a compliance checklist is available from the ATO website at [www.ato.gov.au](http://www.ato.gov.au).

### *Planning Direction, Supervision and Review*

~~6366~~ The auditor ensures that audit staff are properly supervised and their audit work is reviewed to ensure that the audit procedures have been performed satisfactorily to assist the auditor to form the appropriate opinion. Likewise, the auditor delegates tasks to audit staff commensurate with their skill, experience and training. Staffing requirements and supervision needs are ~~also~~ incorporated into the audit plan also.

### *Risk assessment procedures*

~~6467~~ 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 and ASAE 3100 requires the auditor to obtain an understanding of the compliance environment. In doing so, the auditor makes enquiries of the 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, where to focus the auditor's attention.

~~6568~~ ASA 315 requires the auditor to examine the internal controls of the SMSF and document the ~~the~~ auditor's understanding of the control environment. ~~and~~ ASAE 3100 requires the auditor to document the key elements of the compliance framework, such as procedures for identifying, assessing and reporting compliance incidents and breaches. SMSFs are often small entities, with a close and related membership where control is vested in a few individuals. There may be little or no opportunity for implementing proper segregation of duties in these circumstances. Consequently, the auditor may assess the SMSF's control environment and compliance framework as ineffective, in which case the auditor will be unable to rely on the effectiveness of the internal controls to reduce substantive testing. As a result the auditor may conduct testing that is highly or ~~purely~~ fully substantive, including procedures designed to compensate for the limited reliance placed on the control environment or compliance framework.

### **Audit Evidence**

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**6669** ASA 500 *Audit Evidence* and ASAE 3100 require the auditor in the conduct of the financial and compliance audit to obtain ~~sufficient appropriate~~ **sufficient and appropriate** evidence on which to base their opinion. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability. The quantity of evidence is affected by the risk of ~~misstatement~~ [CJ3], the higher the risk, the more evidence required, and the quality of evidence, the higher the quality, the less evidence is required. ~~Ordinarily~~ 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.

**6770** 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 a SMSF this includes financial reports, trustees' minutes, investment holding certificates, contracts of sale, bank statements, invoices, receipts, titles, legal advice, correspondence, emails, Annual Returns, deposit books and cheque butts. 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.

**6871** Audit evidence is more reliable when:

- Obtained from an independent source.
- Controls are operating effectively.
- Obtained directly by the auditor.
- In documentary form.
- It contains original documents.

**6972** A 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*

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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~~remains aware of the potential for fraud in the presentation of audit evidence.

~~7073~~ ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence, which include:

- Inspection of records or documents.
- Inspection of tangible assets.
- Observation.
- Enquiry.
- Confirmation.
- Recalculation.
- Re-performance.
- Analytical review.

~~7174~~ 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~~sufficient and appropriate audit evidence. Where a SMSF has ~~relatively few members and~~ a limited number of transactions ~~and investments~~, procedures may be performed on a ~~100%~~fully substantive basis.

*Inspection of records or documents*

~~7275~~ Inspection of records or documents 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

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nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.

- | ~~7376~~ 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*

- | ~~7477~~ 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 SMSF's rights and obligations or the valuation of the assets.

*Observation*

- | ~~7578~~ 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*

- | ~~7679~~ Enquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the SMSF or outside the SMSF. 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 informal oral enquiries. Evaluating responses to enquiries is an integral part of the enquiry process.

- | ~~7780~~ Responses received to enquiries may provide the auditor with information not previously possessed or with corroborative audit evidence supporting the audit opinion. Alternatively, responses to enquiries may provide information that differs significantly from other information that the auditor has obtained. In all cases, the auditor evaluates all the responses received to enquiries to assess whether there is a need to modify or perform additional audit procedures to support the audit opinion.

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~~7881~~ 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~~ **sufficient and appropriate** audit evidence.

~~7982~~ 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~~ **sufficient and appropriate** audit evidence cannot reasonably be expected to exist or when the other audit evidence obtained is of a lower quality<sup>22</sup>.

*Confirmation*

~~8083~~ 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 cash balances with the SMSF's bank. Confirmations are frequently used in relation to account balances and their components<sup>23</sup>.

~~8184~~ In some cases, where services are outsourced obtaining confirmation from the service organisation will not provide ~~sufficient appropriate~~ **sufficient and appropriate** audit evidence. Obtaining evidence from service organisations is discussed further in paragraphs XX to XX.

*Recalculation*

~~8285~~ 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 SMSF and using **Computer Assisted Audit Techniques (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.

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<sup>22</sup> See ASA 580 *Management Representations*, for further requirements and explanatory guidance on written representations.

<sup>23</sup> See ASA 505 *Confirmations*, for further mandatory requirements and explanatory guidance on confirmations.

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*Re-performance*

**8386** Re-performance is the auditor's independent execution of procedures or controls that were ~~originally~~ performed originally as part of the SMSF'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.

*Analytical procedures*

**8487** 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.

**8588** 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.

**8689** 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 balances 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 Documentation**

**8790** ASA 230 and ASAE 3100 require the auditor to prepare, on a timely basis, audit documentation that is sufficient and appropriate to provide:

- (a) a basis for the auditor's report; and
- (b) evidence that the audit was performed in accordance with ASAs, applicable ASAEs and applicable legal and regulatory requirements.

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8891 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.

8992 In assessing the extent of documentation the auditor considers what audit documentation is necessary 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 ASAs, applicable ASAEs 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.

9093 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.
- The audit methodology and tools used.

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

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*Nature of Documentation*

- | ~~9295~~ 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 SMSF'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.
- | ~~9396~~ 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.
- | ~~9497~~ ASA 230 requires the auditor in documenting the nature, timing and extent of audit procedures to record by whom and when the audit work was performed; and, if applicable, who reviewed the audit work and the extent of the review.
- | ~~9598~~ **Ordinarily.** (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.

*Significant matters*

- | ~~9699~~ 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. The preparation of such a summary may assist the auditor's consideration of the significant matters.
- | ~~97100~~ Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:

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- 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.

**98101** If the auditor ~~has identified~~ information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor documents how the auditor addressed the contradiction or inconsistency in forming the auditor's final opinion.

*Confidentiality*

**99102** 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.

**Representations**

~~100103~~ ASA 580 *Management Representation* and ASAE 3100 require the auditor to endeavour to obtain written representations from the trustees regarding financial and compliance matters. This written representation is generally in the form of a representation letter which can confirm both verbal representations made during the course of the audit as well as other matters requiring written confirmation.

~~101104~~ With respect to the financial audit of a SMSF, ASA 580 requires the auditor to obtain written representations from the trustees that they:

- Acknowledge responsibility for the fair presentation of the financial report in accordance with the adopted applicable financial reporting framework.
- Have approved the financial report.

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- Confirm specified matters material to the financial report, when other ~~sufficient appropriate~~ **sufficient and appropriate** audit evidence ~~reasonably~~ cannot ~~reasonably~~ be expected to exist.
- Acknowledge their responsibility for the design and implementation of internal control to prevent and detect error.
- Believe the effect of uncorrected misstatements aggregated by the auditor are immaterial to the financial report.

~~402~~**105** The auditor may also seek representations under ASAE 3100, with respect to the compliance audit, that the trustees:

- Confirm specified matters material to the compliance audit.
- Have conducted the affairs of the SMSF in compliance with the SIS Act and SIS Regulations for the year of income being audited.

~~403~~**106** Upon receipt of a representation, either verbally 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.

~~404~~**107** Representations by the trustees cannot replace other evidence the auditor ~~reasonably~~ could ~~reasonably~~ expect to be available. An inability to obtain ~~sufficient appropriate~~ **sufficient and 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 **ordinarily**, constitutes a limitation on the scope of the audit, even if a representation from the responsible party has been received on the matter.

~~405~~**108** If the auditor is unable to obtain ~~sufficient appropriate~~ **sufficient and 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 or ASAE 3100 requires the auditor to express a qualified opinion or a disclaimer of opinion.

~~406~~**109** In circumstances where a service provider, such as an administrator or financial planner, plays a pivotal role in the function of the SMSF, then the auditor may wish to seek representations from the

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service provider as to their adherence with the SIS Act and SIS Regulations in the provision of services to the SMSF.

~~407~~110 An example representation letter which covers both the financial and compliance audit is included as Appendix 2.

**Service Providers**

~~408~~111 SMSFs may use service providers to provide investment management services including:

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

These management services may include WRAP accounts, ~~master trusts~~, individually managed portfolio services, individual mandates or platform investments.

~~409~~112 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 ~~also~~, 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 may~~ not ~~be~~ sufficient audit evidence alone.

~~410~~113 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. ~~It~~ therefore it remains the responsibility of the auditor to obtain ~~sufficient appropriate~~ sufficient and appropriate audit evidence to support the auditor's opinion. The requirements of the Auditing Standards relating to obtaining ~~sufficient appropriate~~ sufficient and 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. The use of a service organisation may provide the auditor with the opportunity to reduce substantive testing for balances and transactions maintained by the service organisation, by relying on the controls in place at the service

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organisation. ASA 402 *Audit Considerations Relating to Entities Using Service Organisations* provides requirements and guidance regarding the use of controls reports from service organisations. In addition, GS 007 *Audit Implications of the use of Service Organisation for Investment Management* is relevant where the services provided to the SMSF are investment management services, including custody, investment administration, asset management and property management.

~~11114~~ 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:

- The nature and materiality of the transactions processed or accounts affected by the service organisation.
- 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.

~~112115~~ 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 and appropriate audit evidence relating to the service organisation's provision of services to the SMSF. These are:

- (a) visit the service organisation to obtain the information required;
- (b) perform tests of the SMSF's monitoring controls over the activities of the service organisation;
- (c) obtain a "Type A"<sup>24</sup> Controls Report, on design and implementation of controls;
- (d) obtain a "Type B" Controls Report on the design, implementation and operating effectiveness of the service organisation's controls.

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<sup>24</sup> ASA 402 *Audit Considerations Relating to Entities Using Service Organisations* provides further guidance on control reports.

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~~113~~116 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-Controls R~~report is useful only for obtaining an understanding of the SMSF 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-Controls R~~report.

~~114~~117 A ~~T~~ype B ~~controls-Controls R~~report comprises:

- (a) management's description of the service organisation's control objectives and controls to meet each objective;
- (b) 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;
- (c) the service auditor's opinion about the assertions of management; and
- (d) a description of the service auditor's tests of the controls and the results thereof.

~~115~~118 Whilst the auditor of a SMSF may be able to rely on a Type B ~~controls-Controls R~~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 transactions under ASA 330. It may be impractical or impossible to gain access to the service organisation's records to conduct substantive testing. In this 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 ~~also~~ by or requested from the service organisation. GS 007 provides guidance on using such reports as audit evidence.

~~116~~119 Alternatively the auditor may request a confirmation ~~from the service provider~~ of balances or transactions recorded on behalf of

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the SMSF from the service provider. Whether a confirmation is sufficient and appropriate audit evidence will depend on the materiality of the balances or transactions, whether the auditor can corroborate the confirmation with records separately maintained by the SMSF and whether a controls report is available which enables reliance to be placed on the operating effectiveness of controls at the service organisation.

~~117120~~ 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 also 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.

~~118121~~ The audit procedures applied with respect to service organisations 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 for which prices are readily or publicly quoted ~~publicly available~~, such as managed funds, Pooled Superannuation Trusts (PSTs) and listed property trusts, the auditor is ~~ordinarily~~ able to rely ordinarily on the end of period statements and taxation summaries confirming the number of units held, ~~quoted~~ published 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 when assets are held in custody as individual portfolio services and superannuation administration services~~, the end of period statements and taxation summaries ~~may bear~~ 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~~ Controls R 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 R report and other substantive testing at

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the service organisation or a special purpose audit report from the service organisation's auditor.

~~119~~122 It may be impossible or impractical to obtain ~~sufficient appropriate~~ ~~sufficient and appropriate~~ audit evidence with respect to services outsourced, in which case ~~either~~ the auditor ~~either~~ includes a limitation of scope modification in their report or issues a disclaimer of opinion.

**Using the work of another auditor**

~~120~~123 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 and satisfies ~~themselves~~ ~~themselves~~ that the work of the other auditor is adequate for the auditor's purposes.

~~121~~124 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.

~~122~~125 With respect to the appropriateness of the auditor's work, the auditor will need to consider whether:

- Controls, balances or transactions relevant to the SMSF have been audited.
- The materiality level applied is appropriate to the SMSF's audit.
- An audit opinion, providing reasonable assurance, or a review conclusion, providing limited assurance, has been provided.
- The auditor's report is modified.

**Using the work of an Expert**

~~123~~126 Some SMSF audit engagements may include aspects requiring specialised knowledge and skills in the collection and evaluation of ~~sufficient appropriate~~ ~~sufficient and 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 trustees, the auditor may engage property valuers, actuaries, legal professionals or other professionals as the circumstances dictate.

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~~124~~127 When using the work of an expert, ASA 620 *Using the Work of an Expert* and ASAE 3000 require the auditor to obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the audit. In doing so, the auditor evaluates:

- The professional competence, including expertise and objectivity of the expert.
- Whether the scope of the expert's work is adequate for the purposes ~~of~~ of the audit, including the reasonableness of the assumptions, method and source data used by the expert.
- The appropriateness of the expert's work as audit evidence, including the reasonableness and significance ~~of~~ of the expert's findings in relation to the audit of the SMSF.

~~125~~128 The auditor gains an understanding of the expert's work to the extent that the auditor is able to accept responsibility for the audit opinion.

*Using the work of an actuary*

~~126~~129 Actuaries are experts appointed by the trustees to provide actuarial valuations and certificates required by the SIS Act, SIS Regulations or Income Tax Assessment Act<sup>25</sup> and so, ~~like as for~~ other experts, the auditor applies the requirements of ASA 620 and ASAE 3000 in using their work. Guidance Statement GS 005 *Using the Work of an Actuary* provides further guidance on using the actuary's work as audit evidence. –The auditor assesses the professional competence and objectivity of the actuary, evaluates the adequacy of the scope of the actuary's work for the purposes of the audit, the appropriateness of the actuarial certificates as audit evidence and whether the actuary's findings are properly reflected properly in the financial statements. Any threat to independence that is posed by the actuary being engaged by the SMSF is usually mitigated by the actuary's membership of The Institute of Actuaries of Australia or equivalent body and adherence to their professional standards along in addition to with the requirements for the actuary to report to the regulatory authorities.

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<sup>25</sup> This comprises the Income tax Assessment Act 1936 and the Income tax Assessment Act 1997.

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427130 Actuarial certificates are obtained by the SMSF in the following circumstances:

- ~~Annually for defined benefit funds in the pension phase, which include the value of assets, adequacy of assets to meet accrued benefit liabilities, recommended employer contribution rates and the SMSF's financial position (regulation 9.31).~~
- Triennially for defined benefit funds ~~in the accumulation phase,~~ covering the value of assets, adequacy of assets to meet accrued benefit liabilities, recommended contribution rates and the fund's financial position~~same matters as the annual certificate above~~ (regulation 9.29).
- Annually for SMSF's paying complying pensions, regarding the probability that the SMSF will meet benefit payments, to assist with meeting reporting obligations associated with claiming the aged pension from Centrelink (Social Securities Act 1991).
- Annually for SMSFs with members in both pension and accumulation phases, where the assets are un-segregated, regarding the proportion of tax exempt income (sections 295-390 Income Tax Assessment Act).

Actuarial ~~certificates reviews~~ are not ~~usually~~ required for ~~accumulation funds~~pensions with segregated assets in order to determine the portion of exempt income.

## **Part A - Financial Audit**

- ~~128~~131 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 compliance with the SIS Act and SIS Regulations.
- ~~129~~132 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 ~~formally~~ Australian Accounting Standards and the trustees determine the applicable financial reporting framework which they will apply to the SMSF's financial report.

### **Financial Reports**

- ~~130~~133 The type of financial reports which a SMSF prepares depends on whether it is an accumulation or a defined benefit fund.
- ~~131~~134 An accumulation fund, or defined contribution fund<sup>26</sup>, is a fund which does not provide for any defined benefits<sup>27</sup>. The benefits payable to members on satisfying a condition of release in an accumulation fund are determined by the accumulated contributions made to the fund and the investment income thereon as well as any insurance benefit available, less any expenses or other deductions.
- ~~132~~135 A defined benefit fund is a fund where the benefits payable to members on satisfying a condition of release are determined by reference to a formula; based on the ~~some~~ measure of the member's highest, final or average salary and/or years of membership; or other ~~a~~ specified amount.
- ~~133~~136 The financial report of a SMSF comprises, either:

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<sup>26</sup>Defined under Australian Accounting Standard AAS 25 *Financial Reporting of Superannuation Plans*.

<sup>27</sup>Definition under SIS Regulation 1.03(1)

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- (a) for a SMSF that is an accumulation fund, or a defined benefit fund with an actuarial review at the reporting date, under ~~Section~~section 35B, SIS Act:
  - (i) a Statement of Financial Position; and
  - (ii) an Operating Statement of the SMSF
- (b) for a SMSF that is a defined benefit fund, under SIS Regulation 8.01:
  - (i) a Statement of Net Assets; and
  - (ii) a Statement of Changes in Net Assets.

These are Special Purpose Financial Reports<sup>28</sup> for the purposes of the Australian Auditing Standards.

~~134~~137 The key differences in the two types of financial reports are that:

- (a) A Statement of Financial Position includes the liability for accrued benefits whereas a Statement of Net Assets refers to the liability for accrued benefits only in a note to the accounts. A Statement of Net Assets is prepared where the defined benefit fund does not have an actuarial valuation of the liability for accrued benefits at the reporting date and so it cannot be included on the face of the statement.
- (b) A Statement of Changes in Net Assets, in addition to including all of the items in an Operating Statement, shows the opening and closing balances of net assets available to pay benefits and includes benefits paid in order to reconcile those balances.

~~135~~138 Although the presentation differs between the two types of reports ~~that~~which a SMSF may prepare, the same account categories will require auditing, including:

- Assets:

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<sup>28</sup> Funds, where the benefits are wholly determined by reference to life assurance policies, prepare significantly different financial reports to other SMSFs. Guidance on these reports is provided in SIS Regulations 8.02 and 8.03. This Guidance Statement does not deal with the audit of these funds.

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~~Investments:~~

- Cash and cash equivalents.

~~Investments.~~

~~Receivables.~~

- ~~Prepayments.~~

- ~~Tax Assets.~~

• Liabilities:

~~Income Tax liabilities (current and deferred).~~

~~Accounts payable.~~

- ~~Borrowings relating to instalment warrants.~~

~~Accrued benefits (disclosed in the notes to the accounts for defined benefit funds).~~

~~Vested benefits (disclosed in notes to the accounts).~~

• Reserves.

• Revenue:

- Investment Revenue, including changes in net market values. [SL4]

~~Changes in net market values.~~

~~Proceeds from term insurance policies.~~

~~Contributions.~~

• Expenses:

~~General Administration expenses.~~

~~Benefits paid.~~

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~~⊖~~ Taxation expenses.

The audit of each of these categories of accounts is discussed further in paragraphs XX to XX.

**Assertions and Audit Evidence**

~~136139~~ In representing that the financial report gives a fair presentation of the SMSF's position, results and disclosure during the reporting period and ~~are is~~ prepared in accordance with the applicable financial reporting framework, the trustees ~~implicitly or explicitly~~ make assertions ~~implicitly or explicitly~~ (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures.

~~137140~~ 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.

~~138141~~ 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 or Statement of ~~changes~~ ~~Changes~~ in Net Assets for the period under audit:
  - (i) *Occurrence* - transactions and events that have been recorded have occurred and relate to the SMSF.
  - (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.

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- (b) Assertions about SMSF account balances reflected in the SMSF's Statement of Financial Position or Statement of Net Assets at the period end:
- (i) *Existence* - assets, liabilities, and ~~equity interests~~ member entitlements exist.
  - (ii) *Rights and obligations* - the SMSF holds or controls the rights to assets, and liabilities are the obligations of the SMSF.
  - (iii) *Completeness* - all assets, liabilities and member entitlements ~~equity interests~~ that should have been recorded have been recorded.
  - (iv) *Valuation and allocation* - assets, liabilities, and member entitlements ~~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 within the SMSFs Special Purpose Financial Reports:
- (i) *Occurrence, rights and obligations* - disclosed events, transactions, and other matters have occurred and pertain to the SMSF.
  - (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 appropriately, and disclosures are ~~clearly~~ expressed clearly.
  - (iv) *Accuracy and valuation* - financial and other information is disclosed fairly and at appropriate amounts.

~~139142~~ The assertions form the basis of the substantive audit procedures tests that are applied to contributions, investments, income, member entitlements, benefits, expenses and income tax.

**Materiality**

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- ~~140~~143 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>29</sup>.
- ~~141~~144 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 trustees. For example if the investment return and subsequent value of a portfolio was overstated, the trustees may retire early or, if securities within the portfolio at year-end were overstated, the Trustee may retain them whereas they may have otherwise disposed of those securities. The impact, if any, on members and trustees which might influence the decisions of the intended users will be relevant to determining materiality.
- ~~142~~145 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.
- ~~143~~146 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.
- ~~144~~147 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.
- ~~145~~148 Overall, auditors establish materiality benchmark(s) appropriate to the SMSF's circumstances. The common benchmarks express

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<sup>29</sup>Auditors may include reference to the materiality levels they intend to use in the audit engagement letter.

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materiality as a percentage figure of a particular balance or a dollar figure.

~~146149~~ 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.

~~147150~~ Whilst the auditor uses professional judgement in determining the materiality level for an audit, where the ATO prescribes ~~or suggests~~ materiality levels, ordinarily the auditor would ~~ordinarily~~ use these prescribed levels as the minimum levels applicable.

**Opening balances**

~~148151~~ ASA 510 *Initial Engagements – Opening Balances* requires the auditor to consider whether the opening balances for the year in which they were appointed are fairly stated.

~~149152~~ Upon appointment to a new engagement, for the initial audit ordinarily the auditor ~~ordinarily~~ obtains sufficient appropriate ~~sufficient and 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 correctly to the current period or, when appropriate, have been restated; and
- appropriate accounting policies are consistently applied consistently or changes in accounting policies have been properly accounted for properly and adequately presented and disclosed adequately.

~~150153~~ 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, ordinarily the current auditor ~~ordinarily~~ considers the professional competence and independence of the 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.

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~~151~~154 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 ethics~~ of a professional accounting body<sup>30</sup>.

~~152~~155 If the prior period's financial report was not audited or when the auditor is not able to obtain ~~sufficient appropriate~~sufficient and appropriate audit evidence by examining the work of the previous auditor, ordinarily the auditor ~~ordinarily~~ undertakes further audit procedures to obtain ~~sufficient appropriate~~sufficient and appropriate audit evidence to ascertain whether the opening balances are ~~fairly~~ stated fairly.

~~153~~156 Ordinarily, ~~s~~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~~sufficient and 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 cannot obtain this information, the auditor may need to carry out additional audit procedures to verify the opening balances.

~~154~~157 If audit procedures do not result in obtaining sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's report is modified by either:

- (a) an emphasis of matter paragraph;
- (b) a qualified opinion;
- (c) a disclaimer of opinion; or
- (d) an adverse opinion.

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<sup>30</sup> In Australia, the applicable code of ~~conduct ethics~~ of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional ~~and Ethical~~ Standards Board. This code of ~~conduct ethics~~ has been adopted by CPA Australia, National Institute of Accountants and The Institute of Chartered Accountants in Australia and is applicable to their members.

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Further guidance on the appropriate modification to an auditor's report is provided in paragraph XX.

**Investments**

155158 The investments of a SMSF may include:

- Listed securities.
- 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 managed funds, managed investment schemes, ~~and pooled~~ Pooled Superannuation Trusts (PSTs) ~~and insurance policies~~.
- Unlisted investments including shares and ~~units~~ trusts in widely held entities.
- Unlisted investments including shares and ~~units~~ trusts in closely held and related entities.
- Derivatives such as futures, options and warrants.
- Real property.
- ~~Insurance policies.~~
- Other assets such as artwork, antiques, wine, vehicles, boats, equipment, fishing licences, timber plantations and other agricultural investments.

156159 Investments may be domestic, international or a combination of both. ~~Further, investments and~~ may be held by a custodian, the individual trustees or a corporate trustee. The accounting treatment which may be applied to investments in instalment warrants can be

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either net asset value or separate balances for the gross asset and the liability.

~~157~~160 The audit assertions for auditing a SMSF's investments are:

- ~~e~~Existence – obtaining evidence that the investment exists.;
- ~~R~~Rights and obligations (ownership) – obtaining evidence that the investments are owned directly or beneficially by the SMSF.;
- ~~e~~Completeness – obtaining evidence that all investments owned by the SMSF are recorded in the accounts.; ~~and~~
- ~~V~~Valuation and allocation – obtaining evidence that investments are valued in accordance with the accounting policies adopted and allocated to the correct account.;

~~158~~The auditor also tests investments for compliance which is dealt with in Part B.

~~159~~161 The audit procedures relating to investments will vary depending on the administration and management arrangements adopted by the trustees, the type of investments held and the trustee structure that holds the assets. The auditor exercises professional judgement in determining the appropriate audit procedures.

*Existence and ownership*

~~160~~162 ~~The assets of a SMSF 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 SMSF's 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 SMSF.

~~161~~163 ~~Documentation and other verification is necessary to establish that the assets of the SMSF have actually vested in the trustees. The~~ Auditors ~~usually generally~~ physically examine or sight documentation that verifies that the SMSF is the beneficial owner of the investment. Investment statements, certificates, Declarations of Trust, certificates, investment statements and other documents can assist in providing sufficient appropriate ~~sufficient and appropriate~~ audit evidence that the assets are being held by or on behalf of the SMSF.

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*Completeness*

~~164~~ The auditor ensures that all investments of the SMSF have been recorded at the correct amounts and in the correct period. The auditor reviews supporting documentation to ensure that no asset of the SMSF 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. -The auditor may also obtain representations from the trustees that they have provided a full disclosure of all assets of the SMSF and made available all records relating to those assets.

*Valuation of assets*

~~163~~~~165~~ The valuation of investments requires the trustees to exercise their discretion when determining the most appropriate valuation methods to be applied to each investment of the SMSF. With no definitive method for valuing assets, trustees have a choice of valuation method and 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. Where a SMSF has an arm's length member, such as a member who is under a legal disability, the Trustees need to assess their accounting policies in light of the additional information a non-member may require to assess the performance of the SMSF

~~164~~~~166~~ The ATO's preferred valuation method as outlined in its Superannuation Circular 2003/01 is that SMSFs' assets are carried at *market value*<sup>31</sup>. Market value is the amount which could be expected to be received from an orderly disposal on the open market. AAS 25 *Financial Reporting by Superannuation Plans*<sup>32</sup>, which SMSFs are not compelled to follow as they are not reporting entities, currently requires that assets be recorded at *net market value* which is derived after deducting the costs of disposal from

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<sup>31</sup> ATO 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>32</sup> AAS 25 Financial Reporting by Superannuation Plans is ~~currently~~ being reviewed at the time of publication of this Guidance Statement. Any subsequent changes made to AAS 25 or its replacement should be considered, if relevant, in planning the auditor's procedures with respect to valuation of assets.

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market value. AAS 25 is, however, under review and the valuation method may change when it is revised.

~~165~~167 Determination of market value depends on the nature of the asset. For cash, cash equivalents and listed securities which are publicly 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.

~~166~~168 SMSFs may invest directly in unit trusts, listed securities, ~~pooled superannuation trusts~~ PSTs or other investment products for which prices are ~~readily available~~ 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 kind the auditor uses the published ~~or publicly available~~ prices for valuation and verifies the number of units held by external confirmation. In valuing managed products, care needs to be taken to ensure that the unit price used is consistent with reference to ~~cum-distribution or ex-distribution or cum-distribution~~ price and any accrual of income.

~~167~~169 Multiple valuation methods exist including:

- Fair market value.
- Independent valuation by an expert.
- Net tangible asset backing.
- Latest sale prices.
- Cost.
- Present value method.
- Valuations from similar assets.
- Sworn valuations.
- Applications of indices.

~~168~~170 The auditor needs to be aware of the different valuation methods available and assess whether those used by the trustees are appropriate ~~or~~ and reasonable given the circumstances of the SMSF.

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~~169~~171 Overseas assets need to be stated in Australian dollars and be valued in a ~~consistent~~ manner consistent with ~~to~~ Australian assets.

~~170~~172 If the auditor is unable to form an opinion in assessing the reasonableness of the valuation due to uncertainty and no expert valuation can be obtained the auditor considers modification of the auditor's report.

*Insurance*

~~170~~SMSFs may obtain insurance cover over an asset, such as a commercial building ~~from for~~ 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>33</sup>.

~~172~~173 An auditor is not charged with assessing whether the insurance type and level is appropriate.

~~173~~174 The auditor is generally concerned generally that:

- the insurance exists;
- the SMSF is both the owner and beneficiary of the policy;
- the premium is paid by the SMSF and that cover is effected and current; and
- ~~the trustees have minuted the decision either to be insured, continue with the insurance cover or to discontinue the insurance, particularly if it is insurance relating to a member.~~

~~174~~175 With respect to investment properties, residential or commercial, ordinarily the auditor ~~ordinarily~~ checks to determine if there is insurance in place to protect the SMSF in case an asset is damaged or destroyed. Circumstances may exist where the SMSF's tenancy lease agreement stipulates that the tenant is required to pay for the insurance. In these cases, ordinarily 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>33</sup> Income protection insurance may be permitted within a SMSF but insurance premiums may not be fully tax deductible for the fund.

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### *Real property*

~~175176~~ SMSFs are permitted to hold real property including residential and commercial property as well as vacant land. In certain circumstances, SMSFs are permitted to ~~hold-acquire and hold~~ business real property<sup>34</sup> ~~and to purchase business real property from related parties.the trustees.;~~

~~176177~~ In valuing the real property, ~~ordinarily~~ the auditor ~~ordinarily~~ relies on the trustees' valuations. These can be based on ~~Council rates notices,~~ sworn valuations by appropriately qualified valuers, ~~market appraisalkerbside valuations~~ by real estate agents, a trustee's best estimates or a combination of methods. The basis for the valuation ~~this~~ will affect the reliability of the evidence it provides. The ATO, in Superannuation Circular 2003/01, recommend that for the purpose of financial reporting, valuations be conducted at the SMSF's reporting date on an annual basis. Nevertheless, the trustees may obtain the valuations less frequently ~~but the trustee needs to determine the value each year if the accounting policies state this and may use their own valuation.~~ in which case the auditor may need to conduct further procedures to satisfy themselves that the valuation is not materially misstated.

~~177178~~ For investments which represent ~~greater-high~~ audit risk, such as business real property which may be operated or controlled by the trustees, and material property investments, the auditor seeks to obtain the 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-represent sufficient appropriate~~ sufficient and appropriate audit evidence.

~~178179~~ 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.

### **Cash and Cash Equivalents**

~~179180~~ During the audit planning phase, ~~ordinarily~~ the auditor ~~ordinarily~~ gains an understanding of the nature and extent of the SMSFs

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<sup>34</sup> Business real property is defined in SIS Act Section[x].

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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.

~~180~~181 SMSFs ordinarily open a bank account, cash management trust or similar cash-based transaction account to facilitate the normal activities of the SMSF. These accounts provide either a paper based record or electronic record of transactions and can have cheque and/or direct debit facilities attached.

~~181~~182 The audit assertions for auditing a SMSF's cash and cash equivalents (bank accounts<sup>35</sup>) are:

- *existence*– obtaining evidence that the bank account exists;
- *rights and obligations (ownership)* – obtaining evidence that the bank account is owned directly or beneficially by the SMSF;
- *completeness*– obtaining evidence that all bank accounts owned by the SMSF are recorded ; and
- *valuation and allocation* – obtaining evidence that the bank account is valued at face value in accordance with the accounting policies.

~~182~~183 Cash and cash equivalents are the SMSF's most liquid assets and so may carry a high fraud risk. ~~The a~~Auditor remains alert to fraud and the risk of fraud with respect to the SMSF's bank account(s). The auditor makes enquires regarding who has access to the account via internet or phone banking, or access to ~~the~~ cheque books. - The auditor assesses the internal controls surrounding the authorisation of payments and receipt of income to ascertain whether the cash assets of SMSF are ~~sufficiently~~-safeguarded ~~sufficiently~~.

~~183~~184 If the banking operations are significant to the audit, the auditor sends bank confirmation requests to the SMSFs bank or banks. A bank confirmation is a request to a bank to provide independent confirmation for audit purposes of such information as the SMSFs

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<sup>35</sup> Bank accounts include cash transactional accounts, cash management trusts and other transactional facilities held with banks, fund managers and credit unions.

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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. Internet based accounts are ~~commonly~~ used commonly by SMSFs.

Typically ~~These~~ accounts typically do not generate formal printed statements from the provider which diminishes the quality of audit evidence available. Self-generated statements printed on paper by the trustees or administrator is not equivalent in evidence quality to the formal statements printed on formal institutional paper stock. This reduction in audit evidence quality necessitates the ~~SMSF~~ auditor to issue Bank Confirmation letters when the SMSF conducts all or a portion of its banking transactional activities online.

~~184~~185 Some SMSFs may utilise a cash account established with their broker, investment account or other investment platform as part of their securities trading activity. This account may facilitate trading, settlement and receipt of dividends and interest. The auditor establishes who has access to this account and who can authorise payments to ensure that only authorised investment trading takes place.

**Receivables**

~~185~~186 Typically SMSFs account on a cash basis and will not report receivables, nevertheless where the SMSF accounts on an accruals basis, receivables may include contributions and interest receivable. Receivables are tested primarily for existence by confirming the receipt in the subsequent period.

~~186~~187 Where the SMSF invests in managed funds or other listed securities that pay distributions post balance date, the auditor checks to see that the SMSF has accrued these distributions of income on an accruals basis. Generally, ~~as generally~~ the SMSF will be taxed on these distributions on a distributed basis not on a distribution received basis and for consistency with the taxation calculation it is simpler to account for distributions on an accruals basis.

**Liabilities**

~~187~~188 Liabilities of a SMSF, other than accrued benefits which are discussed separately, may include:

- Liabilities relating to instalment warrants.
- ~~Accruals for audit fees.~~

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- ~~A~~ccruals for accounting fees or other expenses.
- ~~B~~ank overdrafts and other borrowings.
- ~~I~~ncome tax liabilities – current and deferred.
- ~~G~~oods and ~~S~~ervices ~~T~~ax ~~S~~ (GST) payable, if the SMSF is registered for GST. ~~and~~
- ~~A~~ny other accrued expense the trustees have provided for or incurred.

~~188~~189 The audit assertions with respect to a SMSF's liabilities are:

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

~~189~~190 Generally, SMSFs are not allowed to borrow under SIS legislation. ~~Permitted exceptions are borrowing~~ for temporary amounts which are required for the payment of member benefits, payment of the ~~superannuation~~ surcharge ~~or for the~~ settlement of securities transactions ~~or borrowings under instalment warrant arrangements~~.

~~190~~191 Audit risks to be considered in relation to auditing liabilities may include but are not limited to:

- ~~L~~iabilities being understated.
- ~~L~~iabilities being omitted. ~~and~~
- ~~E~~xcessive accruals for expenses that are not being paid or ~~which~~ are not legitimate expenses of the SMSF.

~~191~~192 ~~Normally,~~ ~~The auditor normally~~ performs a search for unrecorded liabilities by examining banking records for payments after period end and reviewing the financial records for expenses that were paid in previous years, but billed infrequently or annually such as

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insurance or accountancy fees, which may not have been included in the current period's accruals.

~~192~~193 Specific audit procedures in relation to liabilities are outlined in Appendix 4.

**Accrued Benefits**

~~193~~194 The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.

~~194~~195 Accrued benefits of a SMSF may arise from:

- Accumulation entitlements where the member bears the investment risk.
- Defined benefit entitlements where a party, other than the member, bears the investment risk. The other party is generally an employer before ceasing employment or the SMSF post employment.
- Insurance claims paid or payable to the SMSF owing to members.

~~195~~196 The audit assertions with respect to a SMSF's accrued benefits are:

- *Existence* - that the accrued benefits exist;
- *Rights and obligations (Ownership)* – the accrued benefits are obligations of the SMSF;
- *Completeness* – all accrued benefits of each member of the SMSF have been recorded; and
- *Valuation and allocation* - that accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.

~~196~~197 Audit risks for accrued benefits include:

- Contributions not being allocated correctly to members;
- Income not being allocated correctly or appropriately to individual members;

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- Expenses being allocated incorrectly to member's balances; and
- Member balances and components not being carried forward correctly from one period to another.

~~197~~198 Accrued benefits are the present obligation to pay benefits to members and beneficiaries in the future. Accrued benefits are calculated differently for accumulation and defined benefit funds. For accumulation funds, benefits are based on the performance of the SMSF's investments and do not exceed the assets available in the SMSF. Accrued benefits in an accumulation fund are calculated as the difference between the carrying value of the assets and the carrying value of tax and sundry liabilities as at the reporting period. Any liability for accrued benefits is included in the Statement of Financial Position for an accumulation fund.

~~198~~199 The defined benefits component of a defined benefit fund is payable to members based on a formula relating to the member's salary and years of service. Accrued benefits in a defined benefit fund are based on actuarial valuations which must be conducted at least every three years in accordance with the SIS Regulations (regulation 9.29) or in the case of a complying fund annually. [Where the SMSF has members claiming the aged pension, the SMSF ~~must generally~~ pays complying pensions which assist with accessing the age pension. The Social Security Act requires annual actuarial reviews for complying pensions in order to ensure that the SMSF does not exceed the asset levels in order to claim the aged pension from Centrelink.] The actuarial valuation is based on the application of a market-based risk-adjusted discount rate and relevant actuarial assumptions to expected future salary levels. For defined benefit funds with an actuarial valuation at period end a liability for accrued benefits is shown on the face of the Statement of Financial Position. For a defined benefit fund which does not have an actuarial valuation current at period end a Statement of Net Assets is prepared and the liability for accrued benefits is disclosed as a note to the accounts as at the last actuarial valuation date.

~~199~~200 Specific audit procedures in relation to accrued benefits are outlined in Appendix 4.

**Vested benefits**

~~200~~201 Vested benefits are those benefits to which the member is currently entitled irrespective of the member's continued membership of the SMSF, on-going employment with a particular employer or

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~~maintaining maintainance of~~ other conditions. Although vested benefits are an unconditional benefit of the member within the SMSF, those benefits can ~~still only~~ be accessed only upon satisfying an appropriate condition of release, such as retirement, death or roll over or reaching age 65 or age 55 and accessing a transition to retirement income stream. ~~Usually v~~ Vested benefits are ~~usually~~ disclosed in the notes to the accounts.

~~201202~~ SMSFs are required to vest the minimum benefits of its members. Minimum benefits include member financed concessional and non-concessional contributions, mandated (compulsory employer contributions such as Superannuation Guarantee (SG) contributions) amounts rolled over or transferred in as minimum benefits and the earnings thereon. Some older SMSFs may have a grandfathered vesting scale which reduces the minimum benefit according to the vesting scale. Minimum benefits must be maintained in the SMSF until they are cashed, rolled over or transferred in accordance with the payment rules.

~~202203~~ Audit procedures to test for vesting of minimum benefits include examining the trust deed to ensure that the Deed fully vests the contributions in the member and that member statements or equivalent detail the full value of any member financed or mandated contribution for the year. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefit is not being reduced by a transfer.

~~203204~~ In circumstances where the SMSF is converting from a defined benefit fund to an accumulation fund, the auditor examines whether the conversion will affect adversely ~~affect~~ members' rights or claim to minimum benefits. Ordinarily, ~~The auditor ordinarily~~ reviews the actuarial advice issued in relation to the conversion and the resultant figures derived.

### **Reserves**

~~204205~~ A reserve is an amount held within a SMSF that is not allocated specifically ~~allocated~~ to a member. Reserves are generally permitted under a SMSF's trust deed unless specifically prohibited. Typically ~~Reserves are typically~~ created from excess investment returns or in accordance with actuarial requirements.

~~205206~~ Types of reserves permitted for SMSFs include:

- Investment

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- Solvency
- Miscellaneous
- Section 279D (Anti-detriment payments)

206207 Contribution reserves [CJ5] were ~~previously~~ permitted ~~previously~~ but the establishment of new contributions reserves is no longer permissible as contributions received by a SMSF must be allocated within 28 days of receipt. Contribution reserves, established before the 28 day allocation to member rule was introduced, are still permitted.

207208 Investment reserves are used to smooth returns and assist with meeting payment obligations for some defined benefit pensions.

208209 Solvency reserves provide an asset/income buffer to assist in guaranteeing payments of defined benefit pensions and are determined actuarially.

209210 ~~Generally m~~Miscellaneous reserves are ~~generally~~ created by the death of the last defined benefit pensioner within the SMSF with the residual sums being transferred to the miscellaneous reserve. They can also be created intentionally for other purposes.

210211 Section 279D or Anti-detriment payment reserves are established to pay an additional benefit upon death equivalent to the ~~15%~~ tax ~~already~~ paid on contributions by the member. They can be funded from excess investment returns or allocated from miscellaneous reserves and need to be established prior to death.

211212 Auditing considerations for reserves include whether:

- The ~~deed~~ Deed permits the making of reserves.
- The reserves have their own investment strategy.
- The assets of the particular reserve are segregated/quarantined from the rest of the SMSF's assets appropriately.
- The SMSF has a strategy for reserves.
- Amounts transferred in or out of the reserve are appropriate.
- Actuarial recommendations are met.

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**Investment and Other Revenue**

212213 Revenue of a SMSF, other than contributions, may include:

- dividends;
- interest;
- rental payments;
- unit trust distributions;
- insurance policy proceeds and bonuses; and
- changes in market value – both realised and unrealised.

213214 The audit objectives for revenue received by a SMSF are:

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

214215 Audit risks to be considered in relation to auditing revenue may include but are not limited to:

- timely receipt of appropriate income;
- income due to the SMSF not being recorded;
- revenue being ~~inconsistently~~ accounted for inconsistently compared to the SMSF's accounting policies;
- over or understatement of income due to inaccurate market values;

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- 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.

| ~~215~~216. Specific audit procedures in relation to revenue are outlined in Appendix 4.

**Contributions**

| ~~216~~217. ~~Typically Contributions-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;
- Spouse contributions;
- Child contributions;
- Small Business Rollovers ;
- Amounts transferred from an overseas fund; and
- Co-contribution; ~~and~~.

• ~~In-specie contributions.~~

Contributions may be made in cash or in-specie or a combination of cash and in-specie. With respect to in-specie contributions the Deed must permit in-specie contributions to be made.

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• Rollovers from other complying superannuation funds are not contributions. However, the audit procedures for them are similar for the audit of contributions.

217218 The audit objectives for auditing contributions received by a SMSF are:

- *Occurrence* - contributions received by the SMSF ~~were~~ are 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 ~~correctly~~ correctly classified correctly – such as concessional or non-concessional.

218219 Audit risks to be considered in relation to contributions may include but are not limited to:

- ~~I~~ncorrect allocation of concessional and non-concessional contributions to members.;
- ~~I~~ncorrect taxation treatment of contributions.;
- ~~T~~he timing of contributions in respect of the contribution caps.;
- ~~The fund has accepted contributions in excess of the fund-capped contributionse~~ contributions are only accepted only as prescribed by the SIS requirements and fall within the contribution caps (this is covered further in Section B.);
- ~~I~~ncorrect valuation of in-specie contributions.

219220 Specific audit procedures in relation to contributions are outlined in Appendix 4.

**Expenses**

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220221 The typical expenses of a SMSF may include:

- administration fees;
- audit fees,
- actuarial advice;
- legal advice;
- valuation fees;
- accounting and tax agent fees;
- superannuation supervisory levy;
- investment management fees;
- property fees – if the SMSF invests in property; and
- insurance premiums paid; and
- taxation – if the SMSF has a taxation liability.

221222 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.

222223 Many SMSFs record expenses on a cash basis with little or no adjustments for prepayments or accruals. Where expenses are accrued the auditor reviews the basis for accrual and determines whether the expense was paid subsequent to year end.

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~~223~~224 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;
- under-inflated expenses being charged to the SMSF; and
- payment to an incorrect creditor.

~~224~~225 ~~Ordinarily~~ ~~The the~~ auditor ~~ordinarily~~ reviews any payments made to individual trustees or corporate trustees to validate that the payment was *bona fide* and not an early benefit or a payment for services to the SMSF, which are prohibited.

~~225~~226 Specific audit procedures in relation to benefits are outlined in Appendix 4.

**Benefits paid**

~~226~~227 Benefits paid by a SMSF are ~~generally~~ triggered generally by the member's retirement, death, temporary disablement, permanent disablement or request to rollover their benefit to another fund, turning 65 or turning age 55 and commencing a transition to retirement income stream. In the event of divorce, benefits can be split pursuant to a superannuation agreement, consent order or an arbitrated court order<sup>36</sup>.

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<sup>36</sup>In circumstances where a benefit payment has been split, auditors need to review all documentation surrounding the split and mechanism by which the superannuation entitlement was dealt with in the property settlement arrangements. See para. XXX for further information.

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227228 SMSFs can pay benefits by way of a lump sum, in cash or in specie by transferring an asset<sup>37</sup>, or a pension. An accumulation fund may pay the following types of pensions:

- account based income streams (formerly known as allocated pensions);
- transition to retirement income streams (formerly known as transition to retirement allocated pension ~~or TRAP~~); or
- market linked income streams (formerly known as market linked pension ~~term allocated pensions~~).

228229 A defined benefit fund may pay the following types of pensions:

- flexi pensions (also known as commutable complying pensions);
- lifetime income streams; or
- complying fixed term income streams.

229230 The pensions currently available are account based income streams or transition to retirement income streams. Existing but g ~~Grandfathered~~ ~~(pensions already in place which may remain and)~~ include allocated pensions, flexi pensions, complying lifetime income streams and complying fixed-term income streams.

230231 Benefits can be paid to the member, the member's spouse, the member's financial dependant, the member's estate or another superannuation fund depending on the circumstances.

231232 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

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<sup>37</sup> A total and temporary disablement benefit (or salary continuance / income protection benefit) is generally paid as a regular income payment without reference to an account balance.

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- *Accuracy* –benefits paid by the SMSF have been calculated and recorded appropriately and the correct amount of Pay – As-You-Go (PAYG) withholding tax, if applicable, is deducted; 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.

232233 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 including any PAYG withholding taxation; and
- payment of a benefit to incorrect member.

233234 In addition, the auditor verifies that any benefit payment made is in compliance with the SIS Act and SIS Regulations benefit payment restrictions with particular focus on testing payments in relation to early access of benefits.

234235 Upon the death of a pensioner, many SMSF pensions are reversionary and continue to pay the pension to the surviving spouse or reversionary beneficiary. The reversionary feature is generally established at commencement of the pension but some Deeds may permit establishment under a discretionary power in the Deed. Auditors, in the case of death of a pensioner with a reversionary benefit, examine if the pension is being paid to the nominated reversionary beneficiary and that the benefit has not been transferred to reserves or paid out.

235236 Specific audit procedures in relation to benefits are outlined in Appendix 4.

*Divorce ~~&~~ and splitting benefits*

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2.36237 In circumstances where a member's benefit within a SMSF is ~~the~~ subject to a property settlement upon divorce<sup>38</sup> or a "splitting arrangement", the auditor reviews the documentation supporting the splitting of the benefit. The documentation reviewed includes:

- superannuation agreement – negotiated between the divorcing parties and certified by two legal practitioners who represent the respective ~~husband and wife~~ divorcing parties;
- consent order – an order of the court frequently negotiated between two legal practitioners who represent the respective ~~husband and wife~~ divorcing parties and submitted to the court for approval.
- arbitrated court order – where the divorcing parties are unable to agree on the settlement terms and the court decides the settlement amount and terms.
- the following notices:
  - (a) Notice by a non-member under regulation 72 of the Family Law (Superannuation) Regulations 2001
  - (b) Notice by a Trustee of information regarding an interest subject to a payment split under regulation 2.36C of the SIS Regulations;
  - (c) Payment split notice by a Trustee to both member and non-member under regulation 7A.03 of the SIS Regulations;
  - (d) One of the following notices by the non-member spouse to the trustee to:
    - Create a new interest under regulation 7A.03C or 7A.05 of the SIS Regulations;

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<sup>38</sup>Legislation, at present, ~~only~~ permits only married couples upon divorce to access the superannuation splitting arrangements. At the time of publishing this Guidance Statement ~~de~~ defacto and same sex couples ~~do~~ do not have access to the legislation upon relationship breakdown. Auditors need to remain aware of possible changes to ~~the~~ this legislation.

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- Rollover or transfer benefits under regulation 7A.03D or 7A.06 of the SIS Regulations;
- Pay a lump sum where non-member has met a condition for release under regulations 7A.03E or 7A.07 of the SIS Regulations.

237238 Once an order or agreement has been ~~properly~~ executed properly, the trustees are required to implement the order or agreement. In general, this may mean one of the parties ~~generally~~ exits the SMSF. The auditor should note that where there is a two member self managed super fund, that the exiting member may take part of the other party's interest as well as their own. The auditor then treats the exit as per a normal member rollover or cashing out. The auditor is careful to ensure that the capital gains issues are addressed and the taxation components and preservation status of the superannuation payments is maintained.

238239 Due to the potential complexities and subtleties of the court orders, the possibility of court orders inadvertently conflicting with the SIS Legislation and SIS Regulations and the trustees' obligations to perform the order irrespective of the implications for compliance with the SIS Act and SIS Regulations, the auditor may seek legal advice where benefits payments under a court order may be in contravention of the SIS legislation.

#### **Taxation Expenses**

239240 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 to the extent of Australian tax payable on the foreign sourced 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.

240241 Some SMSFs account for deferred income taxes using AASB 112 Accounting for Income Taxes which requires the auditor to assess the impact of AASB 112 Accounting for Income Taxes upon the SMSF. Ordinarily, the auditor ~~ordinarily~~ considers whether the recognition and recovery, if appropriate, of any current or deferred

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taxation liabilities or taxation assets is appropriate given the age of the members and the circumstances of the SMSF.

241242 The main areas of focus for an auditor with respect to taxation are the taxation calculation and allocation of any taxation liability to the member account(s). –Audit procedures may include ensuring:

- all the taxable income attributable to the SMSF is recorded correctly and in the correct period;
- all the deductions attributable to the SMSF are recorded correctly and in the correct period;
- all imputation credits and any other offset or rebates are captured and recorded correctly and in the correct period; and
- all the allowable expenses attributable to the SMSF are recorded correctly and recognised in the correct period; with particular focus on contributions and their taxation status being confirmed.

*Contributions*

242243 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 fund-capped contribution (SIS Regulation 7.04) which the trustee is prohibited from accepting. contribution amounts in excess of the caps. The auditor may need to make additional enquiries of the employer or trustees to validate the amounts involved. Significant tax penalties may be levied for contributions in excess of the cap. with excess non-concessional contributions required to be returned.

243244 Ordinarily ~~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.

244245 Any small business CGT concession contributions needs to be examined to ensure that they have been appropriately calculated appropriately and classified correctly.

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245246 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.

*Ordinary income*

246247 The ordinary income of the SMSF includes:

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

It does not include:

- non-taxable contributions;
- income not derived;
- non-reversionary bonuses on life policies; and
- income from assets used to fund pensions.

♦ Income from assets used to fund pensions is still included for the purpose of accounting and auditing, it is ~~just~~ however exempt from taxation.

*Non-arm's length -income*

247248 Non-arm's length<sup>39</sup> income of the SMSF is taxed at a higher rate and includes excessive private company dividends and non-arm's length income and certain trust distributions, ~~which are taxed at a higher rate.~~ Auditors check for any non-arm's length income and assess that it has been taxed appropriately.

*Franked dividends*

248249 Auditors ~~ordinarily~~ check that any imputation credits attached to a franked dividend to which the SMSF is entitled have been recorded

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<sup>39</sup> Non-arm's length income was previously known as special income.

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and that the respective franking credit of each dividend is accounted for correctly and that these have been included in the taxation calculation appropriately. This extends to checking that the SMSF has held the security for the requisite period to qualify for the franking credit.

*Capital Gains Tax*

249250 Growth in the value of SMSF assets may be subject to capital gains tax (CGT). Ordinarily ~~Auditors~~ ~~auditors~~ ~~ordinarily~~ examine any asset disposal that may trigger a CGT event, such as a disposal of a listed security, to ensure that any CGT loss or gain is accounted for appropriately. Auditors need to be aware that CGT applies to all assets, including those purchased pre-CGT which are deemed to be purchased on 30 June 1988.

*Goods and Service Tax*

250251 If the SMSF is registered for GST, most likely due to owning commercial property, 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 SMSF is meeting its reporting and payment obligations with respect to the GST levied on qualifying transactions. {some comment about GST threshold?}

*Deductions*

251252 The general rules of deductibility apply to SMSFs. 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 expenses 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.

252253 The auditor checks that the expenses claimed belong to the SMSF 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*

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~~253~~254 Ordinarily (The auditor ~~ordinarily~~ checks the taxation calculation to verify that it appears appropriate and reasonable in light of the SMSF's circumstances and taxable income for the year.

~~254~~255 The auditor, ordinarily in reviewing the tax calculation ~~ordinarily~~ establishes that exempt income has been identified and that the income, which has been included, is correctly treated. - Similarly that deductions and carried forward losses are made correctly against exempt pension income and/or normal income as appropriate. 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.

~~255~~256 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~~more~~, the ~~SMSF~~ auditor needs to check that their own details have been recorded appropriately.

*Pension and accumulation mode and actuarial reports*

257 Ordinarily, (The auditor ~~ordinarily~~ sights and evaluates the actuarial tax certificate that is used in the calculation of taxable income for SMSFs with unsegregated assets that are part funding a pension stream. The auditor reviews the accuracy of the information provided to the actuary to prepare the actuarial tax certificate. The auditor needs to ensure that the correct percentage figure has been applied to the normal assessable income figure to derive the correct amount of taxable income.

**Other Audit Considerations**

*Going Concern*

~~257~~258 The SMSF's 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>40</sup>. In assessing going

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<sup>40</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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concern, the auditor considers a period of approximately 12 months following the date of the auditor's report for the current period, being the period up until the expected date of the auditor's report for the next period.

- | 258259 To view a SMSF as a going concern the SMSF is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. For a SMSF, the primary concern is whether the SMSF will be able to pay benefits and entitlements to members, in addition to taxation and other expenses, over the coming year.
- | 259260 For an accumulation fund the auditor is concerned with whether the net assets of the SMSF exceed the vested benefits, which are payable to members irrespective of whether they continue as a member. If there is a deficiency in net assets with respect to vested benefits, the SMSF may not be a going concern.
- | 260261 For a defined benefit fund, the value of accrued benefits may be an indicator of future funding deficiencies and inadequacies in the current contribution arrangements in funding future benefits that may arise. For a defined benefit fund, if the value of accrued benefits exceeds the value of the SMSF's net assets, this deficiency does not necessarily result in a modified auditor's report, the auditor ~~firstly~~ determines firstly whether:
  - The net assets exceed the value of vested benefits.
  - The actuary has certified that the SMSF is solvent and likely to remain solvent.
  - The current funding plan is adequate.
- | 261262 A deficiency in assets with respect to vested benefits indicates a high risk of the SMSF experiencing going concern problems and the auditor assesses the actuarial certificates and funding plan to determine if this deficiency can be overcome. The auditor may consider:
  - Whether the employer has been making contributions in accordance with the actuarially determined recommendations.
  - The employer's or member's ability to remediate the funding deficiency.

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- Whether funding arrangements will enable the deficiency in assets to be overcome in the long term.
- Any material uncertainties regarding the ability of the employer or members to remediate the funding deficiency.

*Subsequent events*

262263 ASA 560 *Subsequent Events* requires the auditor to apply audit procedures designed to obtain ~~sufficient appropriate~~ sufficient and 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 after period end, - examining the bank account and investment performance of the SMSF up to the date of signing the auditor's report.

263264 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 SMSF, this would be a material event requiring appropriate disclosure. However, if a non-material small shareholding, of the SMSF became worthless, ~~but was not material~~ it may not ~~need warrant~~ disclosure.

*Winding up*

264265 The auditor continues to play a key role when the trustees decide to wind up the SMSF. The SIS Act ~~still~~ requires the auditor to audit the SMSF from the previous balance date to the date of winding-up the SMSF.

265266 Upon winding up, a normal audit is performed with increased testing in the areas of :

- Liquidated investments, to determine whether they were realised for cash or transferred in-specie and what value was received.
- Benefit payments, to test that they are bona fide, calculated correctly and paid to the correct individual with the correct amount of tax deducted and remitted.
- Rollovers, to test whether they were paid to complying superannuation funds.

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266267 The auditor may request a representation letter covering the period from year end to winding up.

*Anti-money laundering*

267268 The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) is ~~the~~ legislation designed to deter money laundering and terrorism financing. The AML/CTF Act sets out ~~who~~ ~~which entities are s-a~~ reporting entities ~~y~~ and then imposes obligations on them when they provide one or more of the 'designated services' as set out in the AML/CTF Act. Currently, SMSFs do not provide a designated service and accordingly are not required to report under the AML/CTF Act. Despite ~~SMSF~~ auditors having no formal AML/CTF reporting obligations, they remain alert to potential money laundering or terrorist activities and report suspicions voluntarily. ~~A~~ SMSF's financial advisors may have AML/CTF Act reporting obligations but they will not be providing both financial advice and auditing services to the same SMSF.

**Reporting**

268269 With respect to the financial audit, the SIS Act (section 35C) requires the auditor to:

- (a) report on the audit of the financial report for the year of income; and
- (b) give the trustees a report in the approved form, as issued by the ATO, within the prescribed time as set out in the SIS Regulations (regulation 8.03), being a day before the latest date stipulated by the ATO for lodgment of the Annual Return.

269270 ASA 220 requires that before the auditor's report is issued, the auditor performs a review of the audit documentation and conducts a discussion with the engagement team, to satisfy themselves that ~~sufficient appropriate~~ ~~sufficient and appropriate~~ audit evidence has been obtained to support the conclusions reached.

270271 In developing the opinion, the auditor ordinarily considers all relevant evidence obtained, regardless of whether it appears to corroborate or to contradict information contained in the financial report.

*Modifications of the auditor's report*

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271272 ASA 701 contains requirements and guidance regarding when a modification is necessary.

272273 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.

273274 An auditor's report is modified by adding an emphasis of matter paragraph to highlight:

- a significant uncertainty regarding a going concern matter;<sup>41</sup>
- a significant uncertainty regarding a future matter outside the control of the SMSF which may materially affect the financial report;
- 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.

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.

274275 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

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<sup>41</sup> If the auditor has concerns about the viability of the SMSF, this would warrant an immediate section 130 notice to ~~the trustees and be issued to~~ the ATO (~~further guidance on s.130 notices in~~ Refer to paragraphs XX to XX). ~~The trustees ordinarily would be informed and procedures put in place to protect the assets of the SMSE.~~

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“except for” the effects of the matter to which the qualification relates.

- | 275276 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~~ sufficient and appropriate audit evidence and accordingly is unable to express an opinion on the financial report.
- | 276277 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”.
- | 277278 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*

- | 278279 ASA 260 *Communication of Audit Matters with Those Charged with Governance* requires that auditors communicate matters of governance interest arising from the audit to the trustees on a timely basis to enable the trustees to take appropriate action. Ordinarily, the auditor discusses with the trustees and/or management those matters arising from an audit that are causing concern. This provides the trustees with an opportunity to clarify facts and issues and provide further information.
- | 279280 The auditor is ~~also~~ required also under ASA 260 to inform the trustees 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.
- | 280281 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

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to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.

- | ~~281~~282 ASA 250 *Consideration of Laws and Regulations in an Audit of Financial Report* requires that any non-compliance which the auditor considers is intentional and material, is communicated to the trustees and management without delay. The auditor's statutory reporting responsibilities in relation to non-compliance also necessitate reporting of such matters to the trustee under section 129 of the SIS Act.

Draft

## **Part B – Compliance Audit**

282283 The compliance audit of a SMSF is driven by the provisions of the SIS Act and SIS Regulations required to be reported on in the approved form auditor's report and in the ACR, which comprise the compliance criteria for the engagement. These criteria can be grouped within the following categories:

- (a) establishment and operation of the SMSF;
- (b) sole purpose;
- (c) contributions restrictions;
- ~~(e)(d)~~ investment restrictions;
- ~~(d)(e)~~ benefits restrictions;
- ~~(e) contributions restrictions~~;
- (f) solvency; and
- (g) other regulatory information.

283284 The specific criteria and corresponding provisions of the SIS Act and SIS Regulations which are required to reported on in the auditor's report and the ACR under each of these categories are listed in Table 1 below.

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**Table 1: Summary of Criteria for Compliance Audit**

This table provides a summary of the sections of the SIS Act and SIS Regulations which are the criteria reported on in Part B: Compliance of the approved form auditor's report and/or in the ACR.

Category	Specific Criteria	Auditor's Report <u>Part B</u> SIS Act/Reg.	ACR SIS Act/Reg.
<u>Establishment and operation on the SMSF</u>	• Meets the definition of a SMSF.	S.17A <sup>42</sup>	S.17A
	• Trustees are not disqualified persons.	S.121	S.121
	• Maintains minutes and records for specified time periods.	S.103	S.103
	• Maintains trustee declaration regarding duties for those who become trustees for the first time after 30 June 2007.	S.104A <sup>43</sup>	S.104A
	• Proper accounting records kept and retained for 5 years.	S.35A	-
	• Annual financial report prepared, signed and retained for 5 years.	S.35B	-
	• Trustee provides auditor documents requested.	S.35C(2)	S.35C(2)
	• Prohibition on entering contracts restricting trustees' functions and powers.	S.52(2)(e)	-
	• <u>Trustees formulate and implement an investment</u>	<u>R.4.09</u>	<u>R.4.09</u>

<sup>42</sup> Section 17A SIS Act is a requirement which is included in the approved form auditor's report for periods ending on or after 30 June 2008, but was not previously opined upon.  
<sup>43</sup> Section 104A SIS Act is a requirement which is included in the approved form auditor's report for periods ending on or after 30 June 2008, but was not previously opined upon.

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Category	Specific Criteria	Auditor's Report <u>Part B</u> SIS Act/Reg.	ACR SIS Act/Reg.
	<u>strategy.</u>		
<u>Sole purpose</u>	<ul style="list-style-type: none"> <li>Established for the sole purpose of funding a member's retirement, death or disablement benefit.</li> </ul>	S.62	S.62
<u>Investment restrictions</u>	<ul style="list-style-type: none"> <li>Restrictions on acquiring or holding "in-house" assets.</li> </ul>	Ss. 69-71E Ss.73-75 Ss.80-85	S.82, S.83, S.84 & S.85
	<ul style="list-style-type: none"> <li>Restrictions on acquisitions of assets from related parties.</li> </ul>	S.66	S.66
	<ul style="list-style-type: none"> <li>Maintains arm's length investments.</li> </ul>	S.109	S.109
	<ul style="list-style-type: none"> <li>Maintains separate assets.</li> </ul>	S.52(2)(d)	S.52(2)(d)
	<ul style="list-style-type: none"> <li>Prohibition on lending or financial assistance to member or relative.</li> </ul>	S.65	S.65
	<ul style="list-style-type: none"> <li>Restrictions on borrowings.</li> </ul>	S.67	S.67
	<ul style="list-style-type: none"> <li>Prohibition on charges over SMSF assets.</li> </ul>	R.13.14	R.13.14
<u>Benefits restrictions</u>	<ul style="list-style-type: none"> <li>Trustees maintains members' minimum benefits.</li> </ul>	R.5.08	R.5.08
	<ul style="list-style-type: none"> <li>Restrictions on payment of benefits.</li> </ul>	R.6.17	R.6.17
	<ul style="list-style-type: none"> <li>Prohibition on assignment of members' superannuation interest.</li> </ul>	R.13.12	-
	<ul style="list-style-type: none"> <li>Prohibition on charges over members' benefits.</li> </ul>	R.13.13	-
<u>Contributions restrictions</u>	<ul style="list-style-type: none"> <li>Accepts contributions within specified restrictions.</li> </ul>	R.7.04	R.7.04

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Category	Specific Criteria	Auditor's Report <u>Part B</u> SIS Act/Reg.	ACR SIS Act/Reg.
<u>Solvency</u>	<ul style="list-style-type: none"> <li>Events having significant adverse effect on SMSF's financial position.</li> </ul>	S.106	-
	<ul style="list-style-type: none"> <li>Unsatisfactory financial position.</li> </ul>	-	S.130
<u>Other Regulatory information</u>	<ul style="list-style-type: none"> <li>Information regarding the SMSF or Trustees which may assist the ATO, including compliance with other relevant SIS Act sections and SIS Regulations.</li> </ul>	-	S.130A

284285 The auditor may use a checklist as an aide in conducting and documenting the compliance audit, such as the compliance checklist issued by the ATO, which can be found at [www.ato.gov.au](http://www.ato.gov.au) .

**Establishment and operation of the SMSF**

285286 In auditing the SMSF's compliance with the requirements regarding establishment and operation of the SMSF, the auditor conducts testing to determine that:

- (a) the SMSF meets the definition of SMSF, through identifying the members and trustees of the SMSF, examining the trust deed and minutes and verifying who are the member's employers;
- (b) the trustees are not disqualified persons;
- (c) the SMSF's minutes and records are retained for the prescribed periods;
- (d) the SMSF has and retains a declaration of duties signed by any new trustees;
- (e) the SMSF's accounting records are kept and retained for five years;

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- (f) Annual financial reports have been prepared for the SMSF, signed by two trustees, two directors or the sole director of a corporate trustee and retained for five years along with the SMSF's accounts; and
- (g) the SMSF has entered into any contract or act that may prevent or hinder the trustees from properly performing or exercising their powers and functions.

*Definition of SMSF*

| 286287 To determine if the SMSF meets the definition of SMSF<sup>44</sup>, the auditor may conduct procedures including:

- (a) examination of the trust deed and minutes of trustees' meetings to identify the members and trustees;
- (b) enquiring of management regarding member/employers and relationships with other members/trustees;
- (c) testing SMSF payments to ensure no payments have been made to the trustees; and
- (d) obtaining trustee representations.

*Disqualified persons*

| 287288 A SMSF trustee is disqualified under the SIS Act<sup>45</sup> if they are an individual:

- (a) convicted of an offence in respect of dishonest conduct, or
- (b) the subject of a civil penalty order, or
- (c) an insolvent under administration (meaning an undischarged bankrupt in the Corporations Law)
- (d) who has been disqualified by the ATO.

| 288289 A corporate trustee is disqualified if:

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<sup>44</sup> For the definition of a SMSF see para. 3.

<sup>45</sup> SIS Act subsection 120(1)

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- (a) the responsible officer is a disqualified person; or
- (b) the company is in receivership, administration, provisional liquidation or has begun winding up proceedings.

289290 Disqualification can usually be verified through trustee representations regarding disqualification. During the course of the audit the auditor remains alert to circumstances which may indicate that a trustee may be technically disqualified, such as personal financial difficulties or a trustee's involvement in legal proceedings. In this case, the auditor may make enquiries such as checking trustee's details against APRA's disqualification register, the National Personal Insolvency Index listing bankrupts, ASIC Company Register for Company Status and/or other commercial databases providing record search facilities.

*Maintenance and provision of SMSF records*

290291 The auditor obtains representations from the trustees that the minutes and records of meetings have been held for 10 years (or from SMSF inception for funds under 10 years old), accounting records and financial reports have been retained for 5 years and trustees appointed after 30 June 2007 have signed ~~a declaration of duties~~ a "Trustee Declaration" (ATO NAT 71089).

291292 The auditor examines the company secretarial file and considers the availability of documentation during the course of the audit to support the trustees' representations.

292293 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 SMSF's expense into English. This facilitates more efficient and effective auditing and quality assurance.

293294 The auditor does not need to test whether a trustee provides documents when requested as this will become apparent if any documents are required by the auditor.

*Contracts restricting trustees' functions and powers*

295 The auditor considers contracts entered into on behalf of the SMSF, the trust deed and any other arrangements in the light of the SIS Act prohibition on entering a contract or doing anything which prevents the trustee from, or hinders the trustee in, properly performing or exercising their functions or powers. The auditor may obtain

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representations from the trustees that no such arrangement has been entered into.

Investment Strategy

296 The SIS Act requires the trustee of a SMSF to formulate and give effect to an investment strategy that has regard to all the circumstances of the SMSF, including:

- the risk involved in making, holding and realising, and the likely return from, the SMSF's investments, having regard to its objectives and expected cash flow requirements;
- the composition of the SMSF's investments as a whole, including the extent to which they are diverse or involve exposure of the SMSF to risks from inadequate diversification;
- the liquidity of the SMSF's investments, having regard to its expected cash flow requirements;
- the ability of the SMSF to discharge its existing and prospective liabilities.

297 The trustees are 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 have properly considered the risk, diversity, liquidity and ability to meet its liabilities in the formulation of the strategy.

298 Auditors need to be aware of the performance of the SMSF and any material reduction in the value of the SMSF 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. Ongoing actuarial assistance may be required to assess this annually and an actuarial review is formally required every three years.

299 The auditor reviews the investment strategy to assess whether the investments made during the period under review are invested according to the documented investment strategy as provided and approved by the trustees. Auditors enquire whether the trustees have reviewed or modified their investment strategy during the

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period to accommodate the SMSF's changing needs and changes in the investment environment.

300 If the auditor determines that the investments undertaken are not in accordance with the investment strategy, the auditor informs a trustee in writing and determines whether the contravention meets the ATO criteria for reporting in the ACR and the impact on the audit opinion.

**Sole Purpose**

294301 The SMSF's primary aim and purpose 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.

295302 Assessing whether a SMSF has complied with the sole purpose test is a matter for professional judgement and interpretation of the circumstances using the auditor's experience, knowledge and if applicable, the auditor's prior experience of the SMSF.

296303 Compliance testing surrounding the sole purpose test involves assessing whether a course of action by the trustees was more beneficial for the SMSF than another person or entity and enhanced the SMSF's ability to fund a retirement.

297304 Compliance with the sole purpose is generally indicated when:

- (a) 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 SMSF;
- (b) the SMSF does not borrow, except for the legislated exceptions, ensuring that the assets of the SMSF are protected by prohibiting using the SMSF's assets as security for a loan;

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- (c) the SMSF does not lend money or assets to members, trustees or their associates<sup>46</sup>, provide financial assistance to members, trustees or relatives or provide a financial benefit to a member, trustee or provide a relative of a member with a benefit that they would not normally receive;
- (d) the SMSF ~~does not only~~ acquires assets from related parties; ~~except in the limited allowable permitted~~ circumstances<sup>47</sup> to ensure that the SMSF pays and receives services and investments at market values; and
- (e) the SMSF observes the in-house asset rules – ensuring that the assets of the SMSF are not jeopardised by being tied up in a related employer or entity or the member or trustees’ personal affairs.

*Running a Business*

~~298~~305 Whilst not directly prohibited by the SIS Act and SIS Regulations, if a SMSF is running a business it may breach the “sole purpose test” if the purpose is found to be running the business rather than for the sole purpose of providing retirement benefits to members and beneficiaries. SMSFs running businesses may be also in breach of a number of other SIS Act provisions.

~~299~~306 The auditor carefully examines the circumstances of any business-like activity to identify any breaches of the sole purpose test and/or other SIS Act provisions. Indications that a business is being conducted by the SMSF are paying wages or salaries to employees or claiming them on the Annual Return. In conducting a business, if the SMSF employs a member or related party and pays them salaries and wages, these payments ~~would~~ may be in breach of the prohibition on providing financial assistance to members and their relatives under SIS Act, section 65.

~~300~~307 Where a SMSF engages in a high volume of trading in derivatives or listed securities, concerns may be raised that the sole purpose of the SMSF may be to employ the trustees rather than invest for retirement. Similarly, repeated property developments within the SMSF, also raise concerns regarding whether the SMSF is operating

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<sup>46</sup> Some limited lending to trustees is permitted as long as it is under the in-house asset restrictions which are generally 5% of net fund assets.

<sup>47</sup> See para. XX for some of the permitted exceptions.

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a development business rather than investing for the member’s retirement. Property developments also need to be examined closely to ensure that the parties to the development, including the builder and sub-contractors are not related parties of the members or trustees. Purchasing the completed property from the SMSF by the trustees in their personal capacity is also prohibited, under the SIS Act, section XX.

*Collectibles ~~&~~and Lifestyle investments*

~~301308~~ Collectibles are permitted investments for SMSF. Collectibles may be sound investments but they may also provide some enjoyment of the asset prior to retirement, death or disablement and hence potentially breach the sole purpose test.

~~302309~~ 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 and the member is not receiving any pre-retirement benefit or enjoyment from the asset. The auditor satisfies themselves of the following with respect to collectibles:

- Proof of ownership.
- The underlying reason or rationale for the investment including risk involved in making, holding and realising and the likely return from the SMSF’s investments having regard to the SMSF’s objectives and cash flow requirements and the likely market for some collectibles given potential difficulty in realising an asset.
- Where the investment is located or stored and whether it is insured and the policy is in the SMSF’s name.

**Table 2: Audit of Collectibles assets and audit procedures**

This table provides a synopsis of the threats to the sole purpose test posed by collectibles and suggested audit procedures to determine whether the sole purpose test is satisfied. The list is not exhaustive.

Collectibles Asset	Sole purpose test threats	Suggested audit procedures
Artworks	<ul style="list-style-type: none"> <li>• On display/view at member’s or associate’s</li> </ul>	<ul style="list-style-type: none"> <li>• Verify arm’s length lease in place at commercial rate.</li> </ul>

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Collectibles Asset	Sole purpose test threats	Suggested audit procedures
	home/office without lease.	<ul style="list-style-type: none"> <li>• Ensure artwork is currently insured by SMSF and not by member or trustee.</li> <li>• Validate that artwork is stored in a safe and secure manner.</li> <li>• Sight artwork to test above.</li> </ul>
Jewellery	<ul style="list-style-type: none"> <li>• Worn or displayed by member.</li> <li>• Lent to another person for little or no compensation.</li> </ul>	<ul style="list-style-type: none"> <li>• Verify stored in a bank safe deposit or similar off site repository and not in the member's name or with other personal jewellery,</li> <li>• Ensure that jewellery is currently insured by SMSF, not by a member or trustee.</li> <li>• Sight bank safe deposit arrangement to test above. Consider inclusion in bank audit confirmation letter request.</li> </ul>
Classic cars	<ul style="list-style-type: none"> <li>• Driven for pleasure or competition / rallying/ touring.</li> </ul>	<ul style="list-style-type: none"> <li>• Determine where the car is garaged permanently, preferably in a garage not at member's / associate's home or office.</li> <li>• Check odometer readings at beginning of year and at audit to see how far driven during the year.</li> <li>• Some very limited driving for maintenance / engine protection may be permissible. Sight invoices for description of work.</li> <li>• Ensure any expenditure on renovation is appropriate.</li> <li>• Check that car is insured by SMSF, not by member</li> </ul>

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Collectibles Asset	Sole purpose test threats	Suggested audit procedures
		<p>or trustee.</p> <ul style="list-style-type: none"> <li>• Sight classic car to verify condition, odometer reading and garaging facilities.</li> </ul>
Coins / stamps	<ul style="list-style-type: none"> <li>• Enjoyed or displayed in the member's home or associate's home.</li> <li>• Displayed by member as trading stock or lent to another person as stock or display stock.</li> </ul>	<ul style="list-style-type: none"> <li>• Stored in a bank safe deposit , not in the member's name or with other personal coins/stamps, or similar off site repository.</li> <li>• Check that coins/stamps are insured by SMSF, not by a member or trustee.</li> <li>• Sight bank safe deposit arrangement to test above.</li> </ul>
Antiques	<ul style="list-style-type: none"> <li>• Used, enjoyed or displayed in the member's home or associate's home or office or other building owned by the member or associate.</li> </ul>	<ul style="list-style-type: none"> <li>• Verify arm's length lease in place at commercial rate.</li> <li>• Check that antiques are insured by SMSF, not by member or trustee.</li> <li>• Stored in a safe and secure manner.</li> <li>• Sight antiques to test above.</li> </ul>
Sporting memorabilia	<ul style="list-style-type: none"> <li>• Displayed in the member's home or associate's home or office or other building owned by the member or associate.</li> </ul>	<ul style="list-style-type: none"> <li>• Verify arm's length lease in place at commercial rate.</li> <li>• Check that memorabilia is insured by SMSF, not by member or trustee.</li> <li>• Check that memorabilia is stored in a safe and secure manner.</li> <li>• Sight memorabilia to test above.</li> </ul>

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Collectibles Asset	Sole purpose test threats	Suggested audit procedures
Wine	<ul style="list-style-type: none"> <li>Wine consumed, or able to be consumed at will as stored at member's /associate's home or office.</li> </ul>	<ul style="list-style-type: none"> <li>Check that wine is stored correctly in a temperature / humidity controlled environment</li> <li>Determine a strategy in place to dispose of non-investment quality wine or vintages.</li> <li>Check that when wine is no longer required it is not purchase and consumed by a members or trustees<sup>48</sup>.</li> </ul>

- | [303310](#) Other collectibles, such as precious metals, fine china etc – 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.
- | [304311](#) Insurance for some collectibles may be cost prohibitive and hence the auditor may determine that the assets of the SMSF may be at risk and the trustees need to be notified. If the asset is uninsurable or the insurance is cost prohibitive, the trustees may need to demonstrate that measures have been taken to validate the self-insurance is beneficial to the SMSF as opposed to disposing of the asset.

*Lifestyle assets*

- | [305312](#) 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 and SIS Regulations. With respect to SMSFs investing in lifestyle assets, a number of court decisions have been determined, which the auditor may wish to reference to

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<sup>48</sup> Purchasing wine from the SMSF is not a permitted purchase under section XX of the SIS Act.

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determine whether or not an investment may be potentially in breach of the SIS Act and SIS Regulations.

- | 306313 Investments in broadly held schemes or arrangements to develop and sell recreational property may be permitted investments if there is no residual entitlement to utilise the facilities or otherwise enjoy the benefits of the development.
- | 307314 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.
- | 308315 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.

*Units in a related unit trust*

- | 309316 Investments in related unit trusts, where trustees or members of the SMSF are also 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.

**Investment Restrictions**

- | 310317 The SIS Act contains a number of investment prohibitions with which the trustees are required to comply. In assessing whether these prohibitions have been complied with, the auditor examines the nature of each material investment to ensure that the investment is permitted under the SIS Act. In particular, the auditor:
  - Examines the documentation supporting the investment to determine whether it was undertaken and maintained on a commercial and arm's length basis.

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- Evaluates whether the investment has been held separately from the personal assets of the trustee.
- Evaluates whether other entities may be benefiting inappropriately from the transaction.

311318 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 SMSF drops due to movements in securities' values, then the in-house asset percentage may exceed its permitted limit.

Investment Strategy

~~311~~The SIS Act requires the trustee of a SMSF to formulate and give effect to an investment strategy that has regard to all the circumstances of the SMSF, including:

- ~~the risk involved in making, holding and realising, and the likely return from, the SMSF's investments, having regard to its objectives and expected cash flow requirements;~~
- ~~the composition of the SMSF's investments as a whole, including the extent to which they are diverse or involve exposure of the SMSF to risks from inadequate diversification;~~
- ~~the liquidity of the SMSF's investments, having regard to its expected cash flow requirements;~~
- ~~the ability of the SMSF to discharge its existing and prospective liabilities.~~

~~312~~The trustees are 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 have properly considered the risk, diversity, liquidity and ability to meet its liabilities in the formulation of the strategy.

~~313~~Auditors need to be aware of the performance of the SMSF and any material reduction in the value of the SMSF 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. Ongoing aActuarial assistance may be

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~~required to assess this annually and an actuarial review is formally  
required every three years.~~

~~314 The auditor reviews the investment strategy to assess whether the  
investments made during the period under review are invested  
according to the documented 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.~~

~~315 If the auditor determines that the investments undertaken are not in  
accordance with the investment strategy, the auditor informs a  
trustee in writing and determines whether the contravention meets  
the ATO criteria for reporting in the ACR and the impact on the  
audit opinion.~~

*“In-house assets”*

~~317319~~ An “in-house” asset of a SMSF is one that is purchased from, loaned  
to, leased to or an investment in a related party<sup>49</sup> of the SMSF.  
There are a number of exceptions to the definition of in-house assets  
and grandfathering rules included in Part 8 of the SIS Act<sup>50</sup>. The  
auditor familiarises themselves with these exceptions when  
considering in-house asset requirements.

~~318320~~ The SIS Act has strict limits on the level of “in-house assets”  
permitted to be held by the SMSF. The ratio limit is 5% of the total  
market value of the SMSF's assets at the time of acquisition (section  
83 of the SIS Act) and at year end (section 82 of the SIS Act). The  
trustees are also prohibited from acquiring an in-house asset for the  
SMSF that would cause the total of all in-house assets to exceed this  
5% ratio. Auditors examine the investments of the SMSF to identify  
potential in-house assets to ensure that the legislative limits are not  
exceeded when they were acquired and at year end.

~~319321~~ Auditors should also assess whether the trustees have intentionally  
entered into or carried out a scheme which had the effect of  
artificially reducing the market value ratio of the SMSF's in-house  
assets. Such actions are prohibited under section 85 of the SIS Act.

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<sup>49</sup> Related parties are defined in XX.

<sup>50</sup> See also Regulation 13.22B, [13.22C](#) and [13.22D](#).

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*Acquisition of assets from related parties*

- | 320322 Trustees and investment managers are prohibited, under section 66 of the SIS Act, from acquiring assets from a related party unless the assets are acquired at market value and are either:
- Listed securities.
  - Business real property.
  - In-house assets within the 5% ratio limit.
- | 321323 Business real property is land and buildings used wholly and exclusively for business.<sup>51</sup> It does not extend to:
- (a) vacant land unless used in primary production;
  - (b) land used for property development or shares held in a property owning company; or
  - (c) residential properties except where the residence forms part of a primary production business and does not exceed 2 hectares in area or the provision of accommodation is in the nature of a business (e.g. for a motel).
- | 322324 Ordinarily, the auditor examines the documentation surrounding the purchase of any investment to ascertain whether the vendor was a related party. This may involve checking the contract or sale document to confirm who the parties to the transaction were and to the extent possible, their relationship with the trustees and members.

*Arm's length transactions*

- | 323325 The SIS Act requires the trustees or investment manager to invest and maintain the SMSF's assets at arms length. Indicators of non-arms length transactions may include:
- SMSF investments being managed by a related party.
  - Borrower or lender details on a loan contract indicating related parties.

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<sup>51</sup> Further guidance is available in Draft Public Ruling SMSFR 2008/D3 issued by the ATO.

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- Uncommercial or disadvantageous terms of a lease or loan.
- No formal contracts established for loan, lease or other arrangement.
- Assets such as rental properties deriving little or no income or income well below commercial rates.

| [324326](#) The auditor assesses all aspects of the transaction, including that the settlement terms, interest rates, rents, lease refurbishment term, warranties, security and repayment terms are commercial in nature.

*Assets held separately*

| [325327](#) The trustees are required to keep the money and the assets of the SMSF separate from their personal assets and, if applicable, any business assets of the trustees. The auditor examines the affairs of the SMSF to identify possible situations where the assets of the SMSF have become intermingled with personal assets of the trustees. Common breaches surround dividend and interest payments being banked into personal or business accounts, particularly where a corporate trustee operates a number of bank accounts as well as conducting the primary business of the trustee.

| [326328](#) Auditors remain alert to instances where a known interest or dividend payment is due and payable and yet is not present in the bank account and seek explanation as to why it has not been received. Auditors may also suggest remedial action if dividend or interest payments are being remitted into the trustees' accounts. This may be included in the Management letter and section 129 notice to the trustee.

| [327329](#) Further, vigilance is required in identifying circumstances where payments may be made to the trustees, in their personal or business capacity, to support the affairs of either the trustees personally or the business. For example, the trustees may use the SMSF's bank account inappropriately as a source of short term finance or contingency fund to assist with cash flow requirements of the trustees. Auditors examine the bank account and obtain explanations for material withdrawals and deposits.

| [328330](#) In cases where small amounts are accessed in error by the trustees for non-fund use, and where this event is not regular, the auditor examines the bank account to ensure that the repayment is made in full and is inclusive of interest at commercial rates.

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*Loans and financial assistance to members and/or member's relatives*

329331 SMSFs are not permitted to lend money or provide financial assistance to members or their relatives. SMSF assets inappropriately used by the members or relatives of the members under the SIS Act ~~would also~~ may be considered to be the provision of financial assistance. The auditor examines withdrawals of funds or transfer of assets over the period under review to test for unexplained withdrawals to ascertain whether any loan or financial assistance benefit has been provided to a trustee, member or relative of a member or trustee. Access by members or their relatives to SMSF funds may also be considered to be early access without meeting a condition of release and attract punitive taxation.<sup>52</sup>

330332 Similarly, the auditor ordinarily reviews the ownership of the SMSF's assets to ensure that a charge or other form of security has not been taken over any of the SMSF's assets to secure a member or relative's borrowings. This may require performing a title search for the SMSF's real property to identify any encumbrances.

*Borrowings*

331333 SMSFs are not generally permitted to borrow money, with the exceptions of borrowings:

- (a) to pay a benefit or surcharge liability for a maximum of 90 days for up to 10% of the SMSF's assets;
- (b) to cover settlement on a security transaction for a maximum period of 7 days, for up to 10% of the SMSF's assets; or
- (c) as part of an instalment warrant arrangement.

332334 The auditor ordinarily reviews the bank statements to ascertain whether any non-compliant borrowings were made during the period, whether by way of an overdraft or a loan account.

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<sup>52</sup> Accessing benefits prior to meeting a condition of release will be a question of fact and any penalty will be determined by the ATO.

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**333335** Margin lending, in general, involves a borrowing arrangement where a loan is taken out using the listed securities purchased as security for that loan. Margin loan facilities breach the SIS Act and SIS Regulations by virtue of the fact that the borrowing is not an approved exception to the borrowing prohibition and SMSFs are not permitted to give a charge over some or all of the fund assets as required by a margin lending arrangement. Auditors remain alert to indications of the existence of margin lending arrangements in an SMSF, such as interest payments, margin call payments or significant listed securities purchases without corresponding payments.

Derivatives

**334336** The auditor reviews any investments in derivatives, including options, futures, hedge transactions or swaps, to ascertain that the investments are in accordance with the investment strategy, any current legislative requirement and that the investment is not putting the assets of the SMSF at risk. Derivatives, due to their inherent nature, can be high risk and involve borrowings that may have recourse to the SMSF. Where the auditor is unsure of the legality of the investment, the auditor may need to seek legal advice as to whether the investment meets the investment restrictions. Active trading of derivatives ~~could~~ may be construed as running a business and consequently, potentially be in breach of the sole purpose test.

Instalment warrants

**335337** An exception to the prohibition on borrowings, under subsection 67(4A) of the SIS Act, are investments in instalment warrants. Instalment warrants are complex financial arrangements whereby the SMSF buys an asset via an instalment warrant agreement where there is some debt funding or borrowing to purchase the asset. The transaction is characterised by an asset held in trust for the SMSF, where the SMSF holds an interest in the income and the rights to acquire the asset. Regular instalments or repayments are required to be paid by the SMSF. Recourse by the lender, in the case of failure to settle the loan, must be solely over the asset held in the trust arrangement. After commencing the borrowing, the fund is required to make at least one additional payment before purchasing the asset. Whilst there is no formal requirement for regular repayments/instalments, the lack of repayments may bring into question the commercial rationale of the underlying investment and whether the sole purpose test is being breached.

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**336338** Procedures which the auditor may conduct in auditing compliance of instalment warrants with the SIS Act and SIS Regulations may include:

- Examination of the Trust deed to determine if the SMSF is permitted to borrow.
- Examination of the investment strategy to determine if instalment warrant arrangements and the percentage of funds devoted to them are allowed within that strategy.
- Identification of the nature of asset purchased and whether the vendor is a related party so as to ensure that the transaction is permitted under the SIS Act, SIS Regulations and Trust Deed.
- Determination of whether the debt arrangement or loan agreement is a non-recourse agreement as required by the SIS Act (subsection 67(4A)(d)), whereby the **other** assets of the SMSF are not used as security for the loan.
- Determination of whether the finance is provided by a related party in order to identify any **potential** non arms-length dealings.
- Determination of whether that the funds borrowed were used to purchase the asset held in the instalment warrant arrangement.
- Identification of whether the terms of the loan are commercial. Less than commercial interest rates may be a means of making additional contributions to the SMSF whereas an excessively high interest rate may fail the sole purpose test **or potentially be a scheme to access benefits**.
- Determination of whether the investment cash flow is negative, in which case additional contributions may need to be made to meet the shortfall or the SMSF may be in breach of the sole purpose test.
- Identification of any arrangements outside the SMSF, such as a personal guarantee, which may have recourse to the assets of the SMSF, other than the asset acquired (or any replacement) as this may be a breach of the borrowing restriction exception granted to instalment warrant arrangements.

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- Determination of whether the instalment warrant arrangement has been increased after being established as this would indicate a further borrowing and it would be a potential breach of the prohibition on borrowing.

337339 The procedures for exchange traded instalment warrants are similar to that for a listed security such as a share and include verifying the holding with a third party, verifying the carrying value, testing the interest expense and income received from the underlying asset.

*Prohibition on charges over assets*

338340 SMSFs are not permitted to use the assets of the SMSF to secure a debt facility and hence charges and liens over assets are not permitted. Charges and liens over any member benefits are also prohibited. Accordingly, auditors review the minutes, correspondence and records of the trustees to identify whether any charges or debt facilities have been applied for or established. This may involve reviewing the bank confirmation letter as well as performing a title search on any real property the SMSF may have to identify any charges or liens. The auditor may also investigate whether any interest payments have been made by the SMSF which would indicate a loan facility may be in place.

341 The only exception to the prohibition on establishing charges on assets is the exemption provided to SMSFs utilising the limited recourse concessions within the context of instalment warrants.

*Units in related unit trusts*

339342 Where the SMSF has investments in related or unlisted unit trusts, the auditor is alert to any borrowings the unit trust may have and whether there is any recourse to the SMSF. Any borrowings by the unit trust must be in accordance with the SIS Act and SIS Regulations. Certain unit trusts established pre-July 1999 may be subject to special grandfathered legislation that permits borrowings. Other funds may be subject to some of the sunset legislation surrounding these restrictions. The auditor assesses the legislative requirements that apply to the trust and whether the borrowing is permitted on an ongoing basis or needs to be repaid. Additional audit procedures may need to be conducted to assess this. Specialist legal advice may be sought if the auditor is unsure whether the investment exposes the SMSF to borrowings.

340343 The auditor ordinarily requests a set of accounts, the taxation return and distribution statements for the unit trust to identify income, net

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asset value and any debts owing by the unit trust. In certain cases the unit trust deed may be required to assist the auditor in assessing compliance.

**Benefit Restrictions**

341344 The member's ability to receive a benefit normally depends on:

- (a) the type of benefit the member has accumulated in the SMSF;
- (b) whether any preservation restrictions apply to the benefit; and
- (c) whether the rules of the SMSF permit the benefit to be paid at this point in time.

*Minimum benefits*

342345 The trustees are required to maintain the members' minimum benefits, under regulation 5.08, until the benefits are paid out, rolled over or transferred. For defined benefit funds, the auditor ensures that the minimum benefit has been calculated correctly by reference to formula provided for in the Trust deed and the SMSF's records. The SIS Regulations require triennial actuarial reports to be obtained by the trustees for defined benefit funds. The actuarial report states whether, in the actuary's opinion, the value of the SMSF's assets is adequate to meet the accrued benefits of members at the valuation date. For accumulation funds, the minimum benefit which needs to be maintained is the value of vested benefits.

*Restrictions on payment of benefits*

343346 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.

344347 Benefits are generally triggered due to a condition of release being met. Conditions of release are specified in the SIS Act and SIS Regulations and may be further restricted by the SMSF's trust deed. Conditions of release include retirement, partial or semi-retirement, death, total and permanent disability or total and temporary disability. Other conditions of release may include financial hardship, reaching age 65 or a request to rollover.

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- 345348 In relation to testing the compliance of both lump sum or pension-type benefits, the auditor considers whether:
- (a) the circumstances of the individual in triggering the payment of the benefit are consistent with a condition of release;
  - (b) the member has satisfied the payment criteria; and
  - (c) the benefit has been calculated correctly in accordance with the method provided in the trust deed and the governing rules.
- 346349 The auditor, ordinarily tests the validity of the payment by checking to source documents that the benefit payment is bona fide, such as sighting a signed letter to the trustees requesting the benefit be paid.
- 347350 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, for example age 55~~ may also satisfy a condition of release which, in turn, ~~can may allow a member to implement trigger~~ a Transition to Retirement Income Stream<sup>53</sup>.
- 348351 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.
- 349352 With respect to death benefits, the auditor normally satisfies themselves that the member has died. Sufficient evidence is a funeral notice 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 trustees should be aware that tax deductions may be available for anti-detriment payments.
- 350353 If an appropriately witnessed and executed binding death benefit nomination has been made, ~~and it is within the three year time limit~~

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<sup>53</sup> The Family and Community Services Act previously called these pensions Transition to Retirement Pensions (TRAPS).

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~~since it was made,~~ the auditor ordinarily enquires to ensure that the benefit was paid appropriately per the nomination's intent.

~~351354~~ If the SMSF 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.

*Assignment of members' interests or charges over members' benefits*

~~355~~ The trustees are not permitted to recognise, or in any way encourage or sanction, an assignment of a superannuation interest of a member or beneficiary (regulation 13.12, SIS Regulations) or a charge over, or in relation to a member's benefits (regulation 13.13, SIS Regulations).

~~356~~ The auditor reviews the trustee minutes, contracts and correspondence to identify any arrangements which may amount to an encumbrance over members' interests or benefits. The auditor may obtain representations from the trustees that no such arrangement have been entered into of which they are aware.

**Contribution restrictions**

~~352357~~ 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.

~~353358~~ The auditor tests that the SMSF has only accepted contributions in accordance with SIS Regulation 7.04, which are:

- (a) mandated contributions received irrespective of the member's age, such as superannuation guarantee, superannuation guarantee shortfall, award related and certain payments from superannuation holding accounts;
- (b) member contributions if:
  - (i) the member is under 65 years old;

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- (ii) the member is between age 65 but less than 70 and working for gainful employment at least on a part-time basis<sup>54</sup>; or
  - (iii) the member is between age 70 but less than 75 and working for gainful employment at least on a part-time basis.
- (c) member contributions made by the member or employer contributions (except ~~non~~-mandated contributions) if:
- (i) contributions are received up to 28 days after the month end when the member turned 75 years old; and
  - (ii) the member is gainfully employed, at least on a part time basis,
- (d) all other contributions for a member who is under 65 years of age; or
- (e) within contribution caps specified in SIS Regulation 7.04(3)
- (i) if the member is 64 or less on 1 July of the financial year – three times the amount of the non-concessional contributions cap; or
  - ~~(ii)~~ if the member is 65 but less than 75 on 1 July of the financial year – the non-concessional contributions cap
- (f) contributions received at a later date in respect of a period in which the member met the age restrictions.

In addition, a tax file number (TFN) must be supplied under regulation 7.04(2) and contributions must be within contribution caps specified in Reg. 7.04(3) for each member.

354359 In verifying the appropriateness of contributions received the auditor considers factors including:

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<sup>54</sup> The basic work test for accepting contributions is to work for remuneration for at least 40hours in a continual 30 day period within the year the contribution was made.

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- The type and source of contribution.
- The age of the member.
- Whether a tax file number has been provided.
- The amount contributed.
- The timing of when the contribution was made.

| 355360 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 test whether their treatment was appropriate.

| 356361 With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated correctly.

*In-specie contributions*

| 357362 In-specie contributions are contributions to a 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 SMSF on behalf a member without any cash being exchanged.

| 358363 Where contributions are accepted in-specie, the auditor assesses whether:

- the Trust deed permits in-specie contributions; and
- the SIS Act prohibitions on acquiring assets from related parties (including members) have been satisfied.

| 359364 Once it is established that the in-specie contribution may be accepted the auditor assesses whether the in-specie contribution is:

- within the contribution cap;
- the contribution is valued fairly, generally at market value or independent valuation; and
- in breach of another SIS prohibition – for example, contributions of residential properties from members into

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the SMSF may not breach the contributions prohibitions but may breach the restrictions on related party transactions.

**Solvency**

- | [360365](#) If the auditor forms the opinion that the SMSF is in or is likely to fall into an unsatisfactory financial position, the auditor is required to report to the ATO in an ACR and to the trustees in writing under Section 130, SIS Act.
- | [361366](#) Under the SIS Regulations (regulation 9.04) the SMSF is in an unsatisfactory financial position if:
  - for a defined benefit fund: the vested benefits exceed the value of net assets; or
  - for an accumulation fund: the accrued benefits exceed the value of the net assets.
- | [362367](#) The SMSF may be in an unsatisfactory financial position under the SIS Regulations, even though, the SMSF may not be insolvent for the purposes of the financial audit and the auditor has issued an unmodified audit opinion.

**Other Regulatory Information**

- | [363368](#) In the course of conducting the audit the auditor may obtain information regarding the SMSF or a trustee which the auditor considers may assist the ATO in performing its functions under the SIS Act or SIS Regulations. This information may relate to compliance with requirements of the SIS Act or SIS Regulations which are not specified in the Approved Form Auditor's Report or the ACR. Under Section 130A, SIS Act, the auditor is required to report any such information to the ATO in the ACR.
- | [364369](#) The auditor considers whether any regulatory information reported in the ACR under Section 130A should be included in the compliance auditor's report, as the Approved Form Auditor's Report allows for reporting on additional Sections of the SIS Act and SIS Regulations, and whether the information affects their compliance audit opinion.

**Subsequent events**

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- | 365370 The auditor considers the effect of subsequent events on the auditor's compliance report occurring up to the date of the report is signed.
- | 366371 If a material compliance breach has occurred after year end that, the breach may indicate a systemic issue with potential to impact the reporting period and if so may result in a modified compliance opinion. If the matter is one that would give cause for the auditor to form the opinion that the SMSF was, was about to be or would be expected to be insolvent or was in an unsatisfactory financial position, the auditor needs to inform the ATO under section 130 of the SIS Act and a trustee that the auditor has formed this opinion about the SMSF.

**Materiality**

- | 367372 The auditor considers materiality in planning the nature, timing and extent of tests for the compliance audit and in evaluating the effect of any contraventions or potential contraventions identified.
- | 368373 In planning the testing for contraventions the auditor may consider qualitative matters such as:
  - Potential damage to members of a contravention occurring;
  - Whether disclosure of a contravention would influence members', trustees' or the ATO's perceptions or decisions;
  - Potential monetary value of increased taxation resulting from a contravention; and
  - Potential monetary value or severity of any penalties.
- | 369374 The materiality applied to reporting potential or actual contraventions identified by the auditor, depend on whether the auditor is reporting:
  - to a trustee under SIS Act subsection 129(3);
  - to the ATO in an ACR under SIS Act subsection 129(3) or section 130; and/or
  - in the auditor's compliance report.

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- 370375 All potential or actual contraventions of the SIS Act or SIS Regulations are reported to a trustee regardless of the materiality of those contraventions.
- 371376 Events which may lead or have led to one or more contraventions of the SIS Act or SIS Regulations are reported to the ATO in an ACR where they are contraventions of sections or regulations specified in the ACR and, either
- those contraventions meet the reporting criteria, which comprise of 7 mandatory tests specified in the ATO's instructions for ~~SMSF~~ auditors and actuaries *Completing the Auditor/actuary contravention report*<sup>55</sup>; or
  - those contraventions do not meet the tests but the auditor wishes to report them as a result of exercise of their professional judgement; or
  - the SMSF is less than 15 months old in which case all contraventions listed in the ACR Guide are reported regardless of materiality.
- 372377 Contraventions of the SIS Act or SIS Regulations identified by the audit result in a modification to the auditor's compliance report where they are:
- Contraventions of sections or regulations of the SIS legislation specified in the approved form auditor's report; and
  - Contraventions which are material to the SMSF.
- 373378 In determining whether a contravention identified is material to the auditor's compliance report and warrants a modification to that report, the auditor considers the factors in paragraph 364 as well as:
- The time taken to rectify the breach, or if not yet rectified, the trustees' proposed actions and timeline for rectification;

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<sup>55</sup>The ATO's instructions for SMSF auditors and actuaries on *Completing the Auditor/actuary contravention report* can be obtained from the ATO's website at [www.ato.gov.au](http://www.ato.gov.au) ..

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- Whether the auditor has previously reported the breach in a section 129 report to a trustee or in an ACR; and
- The extent to which a limit has been exceeded or a statutory deadline missed.

| [374379](#) Even if a contravention is reported in an ACR, it does not necessarily result in a modification to the auditor's compliance report. The auditor nevertheless considers the contraventions which meet the reporting criteria specified in the ACR instructions and use their professional judgement in determining the impact, if any, on the auditor's compliance report.

**Reporting Compliance Breaches**

| [375380](#) ASAE 3100 requires the auditor's report on compliance to be modified if, in the auditor's judgement, material non-compliance with a requirement being reported on may exist. The circumstances which may result in a modification are:

- (a) -A limitation of scope, due either to circumstances or to a trustee or the engaging party imposing a restriction, which prevents the auditor from obtaining the evidence required, in which case the auditor expresses a qualified opinion or a disclaimer of opinion.
- (b) Where the SMSF is not compliant with the requirements, in the approved form, in all material respects, in which case the auditor expresses a qualified or adverse opinion.

| [376381](#) A qualified opinion is expressed as being "except for" the matter to which the qualification relates when that matter is not so material or pervasive as to require an adverse or disclaimer of opinion.

| [377382](#) The auditor considers whether the matters resulting in a modification to the auditor's compliance report, and any other compliance breaches identified which did not affect the auditor's report, are required to be reported in the ACR to the ATO. The auditor reports all compliance breaches in the ACR which satisfy any of the mandatory tests specified by the ATO in ACR guide, regardless of whether those breaches were considered immaterial in the auditor's judgement.

| [378383](#) The auditor reports any contraventions of the SIS Act or SIS Regulations which it is likely may have occurred, may be occurring

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or may occur to a trustee. This reporting requirement is irrespective of materiality.

**Conformity with International Pronouncements**

| [379384](#) There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

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## **APPENDIX 1**

### **EXAMPLE ENGAGEMENT LETTER**

This Appendix provides an illustrative example to assist auditors with the application of the requirements of the Auditing Standards and Standards on Assurance Engagements, 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 between SMSFs and from one period to the next. This engagement letter is for an accumulation fund.

Further guidance on this matter is available in *ASA 210 Terms of Audit Engagement* and in Standard on Assurance Engagements *ASAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

#### **Example Letter**

To the Trustees /Directors of the Corporate Trustee

Australian Auditing Standard *ASA 210 Terms of Engagement* and Standard on Assurance Engagements *ASAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* require that there must be a clear understanding in writing between the auditor and the trustees of a Self Managed Superannuation Fund (SMSF) 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 to the accounts. In addition, as the fund's appointed auditors, we will also be auditing the fund's compliance during the same period with the requirements of the Superannuation Industry (Supervision) Act 1993 and SIS Regulations (SIS legislation) specified in the approved form auditor's report as issued by the ATO.

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted pursuant to the SIS Act with the objective of our expressing an opinion on the financial report and the fund's compliance with the SIS legislation.

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**The responsibilities of the auditor**

We will conduct our financial audit in accordance with Australian Auditing Standards and our compliance audit in accordance with applicable Standards on Assurance Engagements, as well as any requirements prescribed within the SIS Act and SIS Regulations and with reference to GS 009 *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 is free from material misstatement and that you have complied in all material respects with the specified requirements of the SIS Act and SIS Regulations.

The annual audit of the financial reports and records of the SMSF must be carried out during and after the end of each year of income. In accordance with Section 35 of the SIS Act we are required to present the trustees of the SMSF an audit report in the approved form by the day before the due date of the SMSF's Annual Return.

**Financial Audit approach**

A financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. Our procedures include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and will be undertaken with a view to expressing an opinion on whether the special purpose financial report of the SMSF are presented fairly, in all material respects. 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. Due to 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 SMSF'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**

It is the responsibility of the trustees is to ensure that the SMSF at all times complies with the SIS Act and SIS Regulations as well as any other legislation relevant to the SMSF.

We take this opportunity to remind you that the responsibility for the

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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 SMSF as well as providing us with the necessary records, information and explanations for the purpose of completing our audit. Furthermore, trustees are required to keep minutes of meetings, reports and changes of trustees for a period of 10 years.

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.

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 SMSF and we disclaim any assumption of responsibility for any reliance on our report, or on the financial report to which it relates, to any person other than the members of the SMSF, 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 SMSF. 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 SMSF we are also required to report on compliance with certain aspects of the SIS Act and SIS Regulations. The specific sections and

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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, on a test basis, the operations of the SMSF for compliance, in all material respects to the extent applicable, with the prescribed sections of the SIS Act and SIS Regulations.

**Report on matters identified**

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. Further, you should be aware that we are also required to notify the Australian Taxation Office (ATO) of certain contraventions of the SIS Act and SIS Regulations that we become aware of during the audit irrespective of the materiality of the breach or action taken by the trustees to rectify the matter. Finally, under section 130 we are required to report to you and the ATO if we believe the SMSF may be, or may be about to become, in an unsatisfactory financial position..

You should not assume that any matters reported to you, or that a report that there are no matters to be communicated, indicates that there are no additional matters, or matters that you should be aware of in meeting your responsibilities.

**Fees**

We look forward to full co-operation with [you/your administrator] and we trust that you 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 SMSF 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 Australian Auditing Standards and applicable Standard on Assurance Engagements 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

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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)

.....

Name and Title

Date

## **APPENDIX 2**

### **EXAMPLE 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 Standards, 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 the trustees will vary between SMSFs and from one period to the next.

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

#### **Example Letter**

REPRESENTATION LETTER FROM THE TRUSTEES OF THE [SMSF NAME]

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] (the Fund) for the year ended 30 June 20XX, 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 SIS Regulations ("SIS").

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The trustees have determined that the Fund is not a reporting entity for the year ended 30 June 20XX and that the requirement to apply Australian Accounting Standards and other mandatory reporting requirements do not apply to the Fund. Accordingly, the financial statements prepared are a special purpose financial report which is for distribution to members of the Fund and to satisfy the requirements of the SIS Act and SIS Regulations. 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. Trustees are not disqualified

No disqualified person acts as directors of the trustee company or as individual trustees.

3. Trust deed, Trustee's Responsibilities ~~&~~and Fund conduct

The Fund has been conducted in accordance with its constituent trust deed at all times during the year and there were no amendments to the trust deed during the year, except as notified to you.

No disqualified person acts as director of the trustee company or as an individual trustee.

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 Fund.

All contributions accepted and benefits paid have been in accordance with the governing rules of the Fund and relevant provisions of the SIS Act and SIS Regulations.

There have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial

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reporting practices that could have a material effect on the financial statements.

4. Investment Strategy

The investment strategy has been determined with due regard to risk, return, liquidity and diversity and the assets of the Fund are in line with this strategy.

5. Accounting policies

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

6. 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 the 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 accounting records are kept for 5 years with all members' statements, records of trustee decisions and trustee matters and statutory records being kept for 10 years.

7. 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.

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

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8. 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 SMSF, where possible, and are in the custody of the respective manager/trustee.

There are no liens or encumbrances on any assets and no assets of the SMSF have been pledged to secure liabilities of the SMSF or of others.

All assets of the Fund are held separately from the assets of the members, the employer and the trustees. All assets are acquired, maintained and disposed of on an arm's length basis and appropriate action is taken to protect the assets of the Fund.

9. Related parties

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

The Fund has not made any loans to, or provided financial assistance to members of the Fund or their relatives.

10. 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.

11. Information to Members

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

12. Outstanding legal action

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

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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.

13. 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]

\_\_\_\_\_ [Date]

### APPENDIX 3

#### TRUST DEED AUDIT PLANNING CHECKLIST

In obtaining a preliminary understanding of the SMSF, as part of the planning process, the ~~SMSF~~ auditor examines the Trust Deed to obtain a sound understanding of the trustee structure, requirements of the deed and the powers vested in the trustees. 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.

The auditor exercises professional judgement and due care in interpreting the provisions of the Trust deed. If the auditor is unsure of the meaning or interpretation of a clause, provision or section of the deed, then the auditor may seek the advice of an experienced superannuation lawyer.

The procedures detailed are conducted in the planning phase of the financial and compliance audit of a SMSF.

Ref	Audit Procedure
<b>A</b>	<b>ESTABLISHMENT &amp; EXECUTION</b>
<b>A.1</b>	Is the date of establishment of the SMSF recorded?
<b>A.2</b>	Has the trust deed been properly executed? <ul style="list-style-type: none"> <li>• Signed by all the members/trustees?</li> <li>• Witnessed.</li> <li>• Dated.</li> </ul>
<b>A.3</b>	Are the rules of the SMSF properly executed and stamped (if required)?
<b>A.4</b>	Do the rules incorporate the SIS Act, SIS Regulations and applicable taxation rules?
<b>A.5</b>	Does the deed outline the principal <del>&amp;</del> <u>and</u> ancillary purposes of the SMSF?
<b>A.6</b>	Does the deed require an irrevocable election to be a regulated superannuation fund or a fund subject to the SIS Act and SIS Regulations to be made?
<b>A.7</b>	Does the deed have a clause which deems the appropriate legislation into or out of the deed to allow the SMSF to remain complying?
<b>B</b>	<b>TRUSTEE &amp; MEMBERSHIP</b>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>B.1</b>	Does the Trust deed specify who can be a trustee? Either: <ul style="list-style-type: none"> <li>• Two or more individual trustees; or</li> <li>• A trustee company</li> </ul>
<b>B.2</b>	Does the deed specifically identify the trustee as either an individual or a corporate entity?
<b>B.3</b>	Are all individual trustees or directors of the trustee company required to be members?
<b>B.4</b>	Does the deed permit members to be <ul style="list-style-type: none"> <li>• A non-working spouse?</li> <li>• A retired person?</li> <li>• A child?</li> </ul>
<b>B.5</b>	Does the deed limit the maximum number of members to 4 members?
<b>B.6</b>	Is membership open to anyone else?
<b>B.7</b>	Do the members of the SMSF meet the definitions?
<b>B.8</b>	Does the deed contain the trustee covenants in s.52, SIS Act?
<b>C</b>	<b>AUDIT &amp; FINANCIAL REPORTS</b>
<b>C.1</b>	Does the Trust deed require the appointment of an approved auditor?
<b>C.2</b>	Does the Trust deed require that the trustees to prepare financial statements annually and for these to be audited?
<b>C.3</b>	Does the Trust deed require that the trustees to keep the records of the Trust for 10 years or more?
<b>D</b>	<b>CONTRIBUTIONS</b>
<b>D.1</b>	Does the deed allow: <ul style="list-style-type: none"> <li>• Employer's contributions?</li> <li>• Member contributions/</li> <li>• Eligible spouse contributions?</li> <li>• Contribution splitting to a spouse?</li> <li>• Contributions by members who are under 65 and not working?</li> <li>• Contributions by members who are working part-time and are over 65 and under 75?</li> <li>• Mandated contributions to be accepted at any age?</li> </ul>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>D.2</b>	Does the deed allow for in specie contributions of assets to be made by members or related parties?
<b>D.3</b>	Are the co-contributions rules, where an employer can contribute on behalf of a spouse, incorporated in the rules?
<b>D.4</b>	Does the deed provide a basis for rejecting excess contributions?
<b>D.5</b>	Can excess contributions tax levied on the member be paid by the SMSF, irrespective of preservations rules and conditions of release?
<b>E</b>	<b>BENEFIT PAYMENTS</b>
<b>E.1</b>	Does the SMSF require compulsory cashing of the members balance at a specific age?
<b>E.2</b>	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
<b>F</b>	<b>PENSIONS</b>
<b>F.1</b>	Does the deed expressly allow for the pensions paid by the SMSF, including the following pensions? <ul style="list-style-type: none"> <li>• Allocated pensions.</li> <li>• Market Linked “growth” pensions.</li> <li>• Complying lifetime &amp;/or fixed term pensions.</li> <li>• Non-complying lifetime &amp;/or fixed term pensions.</li> <li>• Assets test exempt lifetime &amp;/or fixed term pensions.</li> <li>• Account based pensions.</li> <li>• Non-commutable pension while member not yet met a condition of release (transition to retirement pension).</li> </ul>
<b>F.2</b>	Does the deed allow for commutation of a pension?
<b>F.3</b>	Does the deed allow for the segregation of assets to meet pension requirements?
<b>F.4</b>	Does the deed make reference to nominated beneficiaries?
<b>G</b>	<b>RESERVES (If applicable)</b>
<b>G.1</b>	Does the deed provide rules in relation to the establishment and operation of SMSF Reserves?
<b>G.2</b>	Does the deed require different or parallel investment strategies for each reserve account?

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<b>Ref</b>	<b>Audit Procedure</b>
<b>G.3</b>	Does the deed allow the following types of reserves? <ul style="list-style-type: none"> <li>• Investment.</li> <li>• Miscellaneous.</li> <li>• Pension.</li> </ul>
<b>H</b>	<b>INVESTMENTS</b>
<b>H.1</b>	Does the deed provide powers to the trustees to invest the assets of the SMSF?
<b>H.2</b>	Does the deed specify specific assets/asset classes that the SMSF may invest in?
<b>H.3</b>	Does the deed prevent investments in or loans to an employer-sponsor, member or associate of either?
<b>H.4</b>	Does the deed require the preparation of an investment strategy in place?
<b>I</b>	<b>BORROWINGS</b>
<b>I.1</b>	Does the deed prohibit borrowings?
<b>I.2</b>	Does the deed permit borrowing in specific circumstances <ul style="list-style-type: none"> <li>• Short term settlement of securities?</li> <li>• Superannuation surcharge assessments?</li> </ul>
<b>I.3</b>	Does the trust deed specifically provide powers to the trustees to enter into a borrowing arrangement under an instalment warrant arrangement?
<b>J</b>	<b>WINDING UP</b>
<b>J.1</b>	Does the deed provide for the winding up of the SMSF?
<b>K</b>	<b>AMENDMENTS TO THE DEED</b>
<b>K.1</b>	Does the deed allow amendments?
<b>K.2</b>	Has the trust deed been amended since the last audit? If so: <ul style="list-style-type: none"> <li>• Has the deed amendment been properly executed?</li> <li>• Is confirmation of the deed's compliance with SIS Act and SIS Regulations required from the solicitor or other party involved in the amendment?</li> <li>• Is the amendment signed off by the current trustees?</li> <li>• Could the amendments impact the audit?</li> </ul>

## APPENDIX 4

### **ILLUSTRATIVE FINANCIAL AUDIT CHECKLIST PROCEDURES**

The following suggested procedures are ~~examples for illustrative purposes~~ only and should be reviewed and adapted for the specific circumstances and audit risks associated with each SMSF audit engagement. The auditor ~~will need to~~ exercises professional judgement to ensure that the procedures adopted are appropriate to the audit engagement. No allowance has been made for materiality or extent of testing and changes may be necessary when reliance is placed on internal controls. ~~This appendix is not intended to serve as an~~ audit programme or checklist in the conduct of an SMSF's financial audit and not all of the procedures suggested will apply to every SMSF financial audit.

The procedures detailed ~~address only the financial audit of a SMSF-are~~ designed to address the financial audit of an SMSF however, ~~is some~~ instances where compliance matters are integral to the financial audit, they may also be included. For suggested procedures in conducting a compliance audit, refer to the ATO's instructions for auditors of SMSFs *Auditing a self managed super fund – Questions and statements to consider when auditing a self managed super fund*<sup>56</sup>.

<b>Ref</b>	<b>Audit Procedure</b>
<b>A</b>	<b>ENGAGEMENT ACCEPTANCE</b>
<b>A.1</b>	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit.
<b>A.2</b>	Confirm that an engagement letter has been issued and that it is relevant to the scope of this audit.
<b>B</b>	<b>AUDIT PLANNING</b>

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<sup>56</sup> *Auditing a self managed super fund* can be found on the ATO's website at [www.ato.gov.au](http://www.ato.gov.au) (NAT 16308-08.2007).

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<b>Ref</b>	<b>Audit Procedure</b>
<b>B.1</b>	<p>Obtain a copy of the following documents before commencing the audit:</p> <ul style="list-style-type: none"> <li>• <u>Trust Deed and Amendments.</u></li> <li>• <u>Signed Financial Report for the prior year.</u></li> <li>• <u>Minutes of Trustee meetings.</u></li> </ul>
<b>B.2</b>	<p>Complete a risk assessment and draft an audit plan for this engagement addressing, as a minimum, the following matters:</p> <ul style="list-style-type: none"> <li>• <u>Client profile &amp; audit arrangements</u></li> <li>• <u>Risk assessment</u> <ul style="list-style-type: none"> <li>- <u>Reporting issues</u></li> <li>- <u>Current period events</u></li> <li>- <u>Evaluate the risk of fraud</u></li> <li>- <u>Control environment</u></li> <li>- <u>Sampling</u></li> <li>- <u>Audit evidence</u></li> <li>- <u>Computer/IT environment</u></li> <li>- <u>SIS compliance</u></li> </ul> </li> <li>• <u>Audit approach</u> <ul style="list-style-type: none"> <li>- <u>Materiality</u></li> </ul> </li> </ul> <p>Consider interviewing the Trustees and/or their advisors, reviewing the draft financial statements and the minutes prior to and during the development of the audit plan.</p>
<b>B.3</b>	<p>Regulatory matters</p> <ul style="list-style-type: none"> <li>• <u>Confirm that the fund is a Regulated Superannuation Fund and listed on the Australian Business Register <a href="http://www.abn.business.gov.au">www.abn.business.gov.au</a></u></li> <li>• <u>Enquire of the Trustee if there has been any correspondence or requests from the ATO and if so, the current status of such matters.</u></li> </ul>
<b>C</b>	<b>FINANCIAL STATEMENTS &amp; DISCLOSURE</b>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>C.1</b>	<p>Check the clerical accuracy and cross references in the financial report, including:</p> <ul style="list-style-type: none"> <li>• The financial reports for defined contribution fund (and defined benefits funds with an actuarial review at period end) include an operating statement and statement of financial position. The financial reports for defined benefit fund (usually a fund paying a complying pension will be a defined benefit fund) includes a statement of changes in net assets and a statement of net assets.</li> <li>• The table of contents or index agrees to the financial report, including that page numbers and content.</li> <li>• The footnotes refer to the notes to the accounts and do not mention compilation reports or “unaudited” information.</li> <li>• The audit report is appropriately placed in the financial report so as not to suggest that the member’s statements or other information that is audited.</li> <li>• Agree prior period comparatives to those from the prior year signed financial report.</li> <li>• Check additions on the financial report.</li> <li>• Check that the notes to accounts cross-reference correctly to and from the financial report.</li> </ul>
<b>C.2</b>	<p><b>Opening Balances - new engagements</b></p> <ul style="list-style-type: none"> <li>• Review the opening balances for reasonableness.</li> <li>• Check that the bank account balance from the prior year financial report agrees with the bank statement at the beginning of the audit period.</li> <li>• To verify the liabilities for accrued benefits in the prior year, confirm the member’s balances have increased by the expected amounts for the current period.</li> </ul>
<b>C.3</b>	<p><b>Accounting policies</b></p> <ul style="list-style-type: none"> <li>• If the financial statements do not comply with AAS25 and other Accounting Standards then satisfy yourself that the SMSF is not a reporting entity and that the accounting policy notes address this and adequately explains the policies adopted to prepare the accounts.</li> <li>• Obtain an understanding of the relevant accounting policies the Trustee has used to prepare the financial report.</li> <li>• Determine if there are any changes in the accounting policies applied in prior periods, and if so, have these been appropriately disclosed in the notes to the accounts.</li> </ul>
<b>D</b>	<b>UNDERLYING ACCOUNTING RECORDS</b>
<b>D.1</b>	Obtain a copy of the fund’s trial balance and general ledger and agreed the trial balance to the financial statements and note any discrepancies.

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<b>Ref</b>	<b>Audit Procedure</b>
<b>D.2</b>	Review the general ledger and identify material journal entries and other adjustments and review these to ensure that they are reasonable and consistent with the financial statements.
<b>E</b>	<b>CASH AND CASH EQUIVALENTS</b>
<b>E.1</b>	Confirm ownership of the bank accounts from the bank statement to the SMSF for each bank account held.
<b>E.2</b>	Sight original bank statements and review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
<b>E.3</b>	Test large and unusual payments and receipts to ensure these are bona fide and correctly recorded and authorised.
<b>E.4</b>	For a sample of payments and receipts, agree the receipts to the source documents and trace to bank statements.
<b>E.5</b>	Review bank reconciliation at year end: <ul style="list-style-type: none"> <li>• Following up and investigating large, unusual or recurring reconciling items.</li> <li>• Follow up uncleared deposits and unpresented cheques ensuring correct cut off.</li> <li>• Trace unpresented cheques to bank statement subsequent to year end.</li> </ul>
<b>E.6</b>	Where banking activities are significant to the audit and you are unable to gain sufficient appropriate audit evidence (in the case of certain term deposits, passbooks or other accounts where regular statements are not issued) confirm the bank balance by way of a bank confirmation letter. Seek explanations for any material differences.
<b>E.7</b>	Ensure that cash investments are correctly classified as investments.
<b>E.8</b>	Agree cash on hand to the cash book before period end and undeposited cash to bank statements after period end. Obtain documentary evidence and confirmation from the trustee that the cash was received by the fund prior to period end.
<b>F</b>	<b>INVESTMENTS</b>
<b>F.1</b>	<b>General</b> An auditor should use professional judgement to determine what evidence is appropriate and the size of the sample to be verified for each investment.
<b>F.2</b>	<b>Foreign Currency Transactions</b> Check to ensure that all investments are recorded in Australian dollars and that if foreign currency transactions occur they are converted at the appropriate currency rates and accounted for correctly.

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<b>Ref</b>	<b>Audit Procedure</b>
<b>F.3</b>	<p><b><u>Managed Portfolios and Custodial Investments</u></b></p> <ul style="list-style-type: none"> <li>• <u>If the fund uses an investment manager or managers that have the authority to transact on behalf of the fund obtain directly from each manager and/or custodian confirmation of the assets held at period end.</u></li> <li>• <u>Endeavour to obtain appropriate auditor’s reports on the investment manager and/or custodian’s internal controls and other systems</u></li> <li>• <u>Confirm that the confirmation refers to the correct Trustee and fund.</u></li> <li>• <u>Confirm the net market value at period end agrees with that disclosed in the financial statements.</u></li> <li>• <u>Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> </ul>
<b>F.4</b>	<p><b><u>PST’s and Insurance Policies</u></b></p> <ul style="list-style-type: none"> <li>• <u>Sight original statement issued by the PST or Life Office at period end.</u></li> <li>• <u>Confirm that the investment is in the correct name.</u></li> <li>• <u>Confirm the number of units and net market value at period end. Ensure that the price is the redemption price.</u></li> <li>• <u>Confirm the net market value at period end agrees with that disclosed in the financial statements.</u></li> <li>• <u>Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> </ul>
<b>F.5</b>	<p><b><u>Interest Bearing Investments</u></b></p> <ul style="list-style-type: none"> <li>• <u>Obtain the bank audit confirmation and ensure that it agrees with the description and value recorded in the financial statements.</u></li> <li>• <u>Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that investment is an asset of the Fund.</u></li> </ul>
<b>F.6</b>	<p><b><u>Fixed &amp; Deferred Interest Securities</u></b></p> <ul style="list-style-type: none"> <li>• <u>Complete the following for each fixed or deferred interest security including debentures and bonds held by the fund at the end of the period:</u> <ul style="list-style-type: none"> <li>- <u>Sight original certificates and confirm correct ownership, date of issue of the certificates and date of maturity of the investment;</u></li> <li>- <u>Agree the value of securities held at period end, in the case of bonds: confirm the net market value of the bond at period end with the originator of the security. In the case of unlisted non-transferable debentures the net market value should equal the face value.</u></li> </ul> </li> <li>• <u>Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that investment is an asset of the Fund.</u></li> <li>• <u>Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> </ul>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>F.7</b>	<p><b><u>Property</u></b></p> <ul style="list-style-type: none"> <li>• <u>Complete property searches or view the original titles for all real estate investments owned by the fund.</u></li> <li>• <u>Check that each property is owned by the trustee and is correctly and appropriately recorded as an investment of the fund.</u></li> <li>• <u>Check that there are no registered encumbrances, or if so, the related liabilities are correctly reflected in the financial statements.</u></li> <li>• <u>Review the accounting policies to determine how the trustee has valued each property. Generally property investments should be carried at net market value determined in line with ATO Superannuation Circular 2003/1.</u></li> <li>• <u>If the Trustees have relied on an independent market appraisal or valuation, obtain a copy of this and confirm that the valuation contains the following information and that the value is correctly reflected in the financial reports:</u> <ul style="list-style-type: none"> <li>- <u>The valuation/appraisal refers to the correct property.</u></li> <li>- <u>The valuation takes into account redemption costs.</u></li> <li>- <u>The value taken into account GST (if applicable).</u></li> <li>- <u>If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal.</u></li> <li>- <u>That the method used to value the property is consistent with that disclosed in the accounting policy notes.</u></li> </ul> </li> <li>• <u>If the Trustees have not obtained an independent market appraisal or valuation, obtain documentary evidence as to how the Trustees have determined the value reflected in the financial reports and that they have used a reasonable process in doing so, including:</u> <ul style="list-style-type: none"> <li>- <u>Taking into account all relevant factors and considerations likely to affect the value of the asset.</u></li> <li>- <u>Undertaking the valuation in good faith.</u></li> <li>- <u>The valuation has resulted in a rational and reasonable process.</u></li> <li>- <u>Is capable of explanation to a third party.</u></li> <li>- <u>The valuation takes into account redemption costs.</u></li> <li>- <u>The value taken into account GST (if applicable).</u></li> <li>- <u>If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal.</u></li> <li>- <u>That the method used to value the property is consistent with that disclosed in the accounting policy notes.</u></li> </ul> </li> <li>• <u>Where the property includes “buildings and other fixtures” and these are being depreciated, ensure that the depreciation adjustments are correctly and appropriately reflected in the net market value and accounting policies.</u></li> </ul>

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<b>Ref</b>	<b>Audit Procedure</b>
<b><u>F.8</u></b>	<p><b><u>Listed Securities</u></b></p> <ul style="list-style-type: none"> <li>• <u>Review the number of listed securities including shares, units, instalment receipts, options, warrants and futures held by the fund at the end of the period. If the Fund has units in unit trusts obtain a listing of these and identify those that are listed on the Australian Stock Exchange, those that are widely held trust and those that are closely held investments. Audit work on unlisted investments in covered below.</u></li> <li>• <u>Select the sample to be verified.</u></li> <li>• <u>Agree the number of securities held at period end to the CHESSE Statement issued at period year, the share or unit registry or other appropriate sources.</u></li> <li>• <u>Check that each listed security is owned by the trustee and is correctly and appropriately recorded as an investment of the fund.</u></li> <li>• <u>Confirm the closing market price of the securities at the period end against an independent report of the price.</u></li> <li>• <u>Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> <li>• <u>If the fund invested or redeemed listed securities during the period, select at least one transaction and trace the transactions to and/or from the fund to satisfy yourself that they have been dealt with in an appropriate and timely manner.</u></li> </ul>
<b><u>F.9</u></b>	<p><b><u>Unlisted Unit Trusts</u></b></p>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>F.9.1</b>	<p><u>Widely Held Trusts</u>  <u>These are usually unlisted but widely held and therefore unrelated trusts that provide regular reports on unit holdings, distributions and unit prices.</u></p> <ul style="list-style-type: none"> <li>• <u>Select the sample to be verified</u></li> <li>• <u>Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree the following:</u> <ul style="list-style-type: none"> <li>- <u>The number of securities held at period end</u></li> <li>- <u>That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the fund.</u></li> <li>- <u>Confirm the closing price of the units at the period end against the unit holder statements.</u></li> <li>- <u>The method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> <li>- <u>Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported.</u></li> </ul> </li> <li>• <u>If the fund invested or redeemed units during the period, select at least one transaction and trace the transactions to and/or from the fund to satisfy yourself that they have been dealt with in an appropriate and timely manner.</u></li> </ul>
<b>F.9.2</b>	<p><u>Closely Held Trusts</u>  <u>These are usually related trusts that require additional audit procedures to confirm ownership and value.</u></p> <ul style="list-style-type: none"> <li>• <u>Select the sample to be verified</u></li> <li>• <u>Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree the following:</u> <ul style="list-style-type: none"> <li>- <u>The number of units held at period end</u></li> <li>- <u>That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the fund.</u></li> <li>- <u>Obtain documentary evidence as to how the Trustee has determined the value reflected in the financial reports and that they have used a reasonable process in doing so.</u></li> <li>- <u>The method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> </ul> </li> <li>• <u>If the fund invested or redeemed units during the period, select at least one transaction and trace the transactions to and/or from the fund to satisfy yourself that they have been dealt with in an appropriate and timely manner.</u></li> </ul>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>F.10</b>	<p><b><u>Assets subject to Limited Recourse Debt/Instalment Warrants Arrangements</u></b></p> <ul style="list-style-type: none"> <li>• <u>If the asset is subject to an instalment warrant arrangement, determine how the investment has been valued, either net asset value or gross assets and liabilities, and confirm that this is consistent with that disclosed in the accounting policy notes.</u></li> <li>• <u>Audit procedures should be undertaken (as outlined above) based on the type of arrangement</u></li> </ul>
<b>F.11</b>	<p><b><u>Other Investments (artwork, etc)</u></b></p> <ul style="list-style-type: none"> <li>• <u>If the asset is a type that does not have any form of title obtain documentary evidence from the Fund to satisfy the requirement, suggested evidence includes:</u> <ul style="list-style-type: none"> <li>- <u>Minutes or resolution relating to the acquisition of the asset.</u></li> <li>- <u>Invoice and evidence of payment from the SMSF for the purchase of the asset.</u></li> </ul> </li> <li>• <u>If the Trustee has relied on an independent valuation, obtain a copy of this and confirm that the valuation contains the following information and that the value is correctly reflected in the financial reports:</u> <ul style="list-style-type: none"> <li>- <u>The valuation/appraisal refers to the correct trust.</u></li> <li>- <u>The valuation refers to the correct period.</u></li> <li>- <u>That the method used to value the property is consistent with that disclosed in the accounting policy notes.</u></li> </ul> </li> <li>• <u>If the Trustee has not obtained an independent valuation, obtain documentary evidence as to how the Trustees have determined the value reflected in the financial reports and that they have used a reasonable process in doing so, including:</u> <ul style="list-style-type: none"> <li>- <u>Taking into account all relevant factors and considerations likely to affect the value of the units.</u></li> <li>- <u>Undertaking the valuation in good faith.</u></li> <li>- <u>The valuation has resulted in a rational and reasonable process.</u></li> <li>- <u>Is capable of explanation to a third party.</u></li> </ul> </li> <li>• <u>Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.</u></li> </ul>
<b>G</b>	<b><u>RECEIVABLES</u></b>
<b>G.1</b>	<u>If the fund uses accrual accounting, review each investment class and determine if the SMSF was entitled to receive income for the year and if this had been received at balance date.</u>
<b>G.2</b>	<u>Obtain details of other receivables and ensure that they are correctly disclosed.</u>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>G.3</b>	<u>Satisfy yourself that the receivable is current and has been received by the fund subsequent to period end.</u>
<b>G.4</b>	<u>If the amount has not been received, satisfy yourself that it will be received by the fund.</u>
<b>G.5</b>	<u>Is the amount receivable from a related party, satisfy yourself that the disclosures are appropriate.</u>
<b>H</b>	<b>LIABILITIES</b>
<b>H.1</b>	<u>Review the value at which liabilities have been disclosed in the accounts and vouch to supporting documentation. Review the documentation and assess whether the amount and nature of the liabilities appears reasonable.</u>
<b>H.2</b>	<u>Agree benefit payable to the supporting documentation for benefit payments subsequent to year end to ensure the benefit was actually outstanding and have been correctly recorded.</u>
<b>H.3</b>	<u>Vouch payment of liabilities, accruals and benefits payable subsequent to year end by reviewing payments from bank statement.</u>
<b>H.4</b>	<u>Review ageing of liabilities/payables and comment on any delay in payment.</u>
<b>H.5</b>	<u>Vouch prior year payables and accruals as paid during the year, or re-accrue or adjusted against expense items.</u>
<b>H.6</b>	<u>Test for unrecorded liabilities by reviewing client documentation and subsequent payments.</u>
<b>H.7</b>	<u>Review prior year accounts to identify expenses that have paid for in previous years but not paid/accrued for this year.</u>
<b>I</b>	<b>ACCRUED AND VESTED BENEFITS</b>
	<u>Note that in most cases the vested benefits in a SMSF will equal the accrued benefits. However, these will differ if the fund is a defined benefit fund, in which case the actuary will need to value the liabilities in order to determine the accrued and vested benefits.</u>
	<u>If a defined contribution fund is holding reserves, the accrued benefits will also differ from the vested benefits by the value of that those reserves.</u>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>I.1</b>	<p><b>Defined Contribution Funds</b></p> <ul style="list-style-type: none"> <li>• Determine if the net assets of the fund have been allocated between the members, if so, the vested benefits will generally agree to the accrued benefits.</li> <li>• Obtain listing of all members account balances and check that figure balances with accrued and vested benefits in the financial statements.</li> <li>• Review the allocation of earnings, expenses, income tax, contribution surcharge and other items between members to ensure that they have been correctly apportioned.</li> <li>• Ensure that the disclosures in the financial statements are appropriate and consistent with the member's entitlements.</li> <li>• Check that vested benefits do not exceed net assets.</li> </ul>
<b>I.2</b>	<p><b>Defined Benefit Funds</b></p> <ul style="list-style-type: none"> <li>• Obtain a copy of the most recent actuarial valuation and review this is consistent with your understanding of the fund, member details and pension terms.</li> <li>• Ensure that the actuarial valuation is within the past three years and if for a year other than the current financial year, this has been disclosed correctly.</li> <li>• Check the values in the valuation with accrued and vested benefits in the financial statements.</li> <li>• Check that vested benefits do not exceed net assets.</li> </ul>
<b>J</b>	<b>RESERVES</b>
<b>J.1</b>	Review the fund documentation including the trust deed, benefit design and trustee minutes to ensure that the reserve is permitted and recorded in accordance with trustee policy.
<b>J.2</b>	Review the movements in the reserve during the period to ensure that they are clerically accurate and in accordance with the trustee's policy.
<b>J.3</b>	Ensure that the disclosures in the financial statements are appropriate and consistent with the member's entitlements.
<b>K</b>	<b>INVESTMENT &amp; OTHER REVENUE</b>
<b>K.1</b>	<p>Calculate the investment return as a percentage of assets held by the fund, as follows:</p> $\frac{\text{Net Investment Income}}{\frac{\text{Net Asset Beginning period} + \text{net assets end period}}{2}}$ <p>Compare this to the prior year as well as average market performance for the period of the audit and satisfy yourself that the return is reasonable and not under or overstated.</p>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>K.2</b>	<u>Interest Income</u> <ul style="list-style-type: none"> <li>Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received.</li> </ul>
<b>K.3</b>	<u>Changes in Net Market Value</u> <ul style="list-style-type: none"> <li>Test the changes in net market value calculations including realised changes in net market value to ensure that they are correct.</li> </ul>
<b>K.4</b>	<u>Dividends</u> <ul style="list-style-type: none"> <li>Vouch a sample of dividends received to dividend slips or ASX details.</li> <li>Confirm that franking credits have not been brought to account as income or if they have, details have been disclosed in the accounting policy notes.</li> </ul>
<b>K.5</b>	<u>Trust Distributions</u> <ul style="list-style-type: none"> <li>Vouch distributions received to distribution advice, ensuring that the discounted capital gains and other income have been correctly classified.</li> </ul>
<b>K.6</b>	<u>Rental Income</u> <ul style="list-style-type: none"> <li>Vouch rental income against agent's statements and cash receipts, as appropriate.</li> <li>If the fund is complying with accounting standards, rental expenses should be deducted from rental income to provide net investment revenue.</li> </ul>
<b>K.7</b>	<u>Other Income</u> <ul style="list-style-type: none"> <li>If the fund receives other forms of income ensure that these are correctly calculated and disclosed.</li> <li>Ensure income is classified correctly between investment and other income.</li> </ul>
<b>L</b>	<b>CONTRIBUTIONS</b>
<b>L.1</b>	<u>For concessional contributions</u> <ul style="list-style-type: none"> <li>Obtain confirmation of employer confirmation, for related employers this may include the trial balance and general ledger.</li> <li>Test that contributions have been allocated to the member for whom they were remitted.</li> <li>For concessional contributions made by the member, obtain a copy of the Section 290-170 Notice of Intention to Deduct and confirm the details are consistent with the accounting treatment.</li> </ul>
<b>L.2</b>	<u>For non-concessional contributions</u> <ul style="list-style-type: none"> <li>Obtain confirmation from the members as to the personal non-concessional contributions made by them and test that they have been allocated to the member for whom they were received.</li> </ul>
<b>L.3</b>	<u>Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.</u>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>L.4</b>	<u>Obtain listing of all Transfers in and vouch to documentation ensuring that the transfer in, is from a complying and taxed or untaxed source.</u>
<b>L.5</b>	<u>Verify and trace sample of contributions to the bank statement.</u>
<b>M</b>	<b>EXPENSES</b>
	<ul style="list-style-type: none"> <li>• <u>Perform an analytical review of expenses generally and assess for reasonableness against your knowledge of the fund and in comparison to the prior year's expenditure.</u></li> <li>• <u>Vouch major material items to invoices.</u></li> <li>• <u>Agree administration fees to the agreement with the administrator</u></li> <li>• <u>Agree management fees to the agreement with the investment manager.</u></li> </ul>
<b>N</b>	<b>BENEFITS PAID</b>
<b>N.1</b>	<u>Lump Sums Obtain a listing of all benefits paid and reconcile benefits paid between general ledger and bank statement.</u>
<b>N.2</b>	<u>For each benefit paid, review documentation including correspondence to the members and rollover institutions and ensure that the benefit was duly authorised.</u>
<b>N.3</b>	<u>Confirm that each benefit was paid in accordance with the terms of the trust deed.</u>
<b>N.4</b>	<u>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.</u>
<b>N.5</b>	<u>For retirement or other defined benefits check calculation is in accordance with the trust deed and agree member's age, final average or highest average salary and years of service to payroll, personnel records or trust records.</u>
<b>N.6</b>	<u>For death benefits, sight death certificate and confirm if the benefit was paid in accordance with a binding death benefit nomination.</u>
<b>N.7</b>	<u>For a total and permanent disability benefit, sight the medical certification regarding the inability of the member to work again.</u>
<b>N.8</b>	<u>For a total and temporary permanent disability benefit, sight the medical certification regarding the ability of the member to work again.</u>
<b>N.9</b>	<u>Each the PAYG obligations have been correctly calculated and remitted by the Fund.</u>

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<b>Ref</b>	<b>Audit Procedure</b>
<b><u>N.10</u></b>	<b><u>Pension Payments</u></b> <b><u>Sight documentation (member requested and trustee minutes confirming member's request for pension) and trustee acknowledgement and agreement to pay pension.</u></b>
<b><u>N.11</u></b>	<b><u>Review the terms of the pensions to ensure that the pensions have been calculated and paid in accordance with these terms.</u></b>
<b><u>N.12</u></b>	<b><u>Trace a sample of pension payments to bank statements.</u></b>
<b><u>O</u></b>	<b><u>TAXATION</u></b>
<b><u>O.1</u></b>	<b><u>Review Taxation Work Papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies.</u></b>
<b><u>O.2</u></b>	<b><u>If the fund is accounting for income tax in accordance with AASB112, ensure that this is appropriate for the fund, especially if the fund is paying pensions.</u></b>
<b><u>O.3</u></b>	<b><u>If the fund does not adopt AASB112 is this departure from Accounting Standards disclosed in the accounting policies in the financial statements.</u></b>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>O.4</b>	<p><u>The following items are included as a guide only. They are not an exhaustive list. All taxation matters should be reviewed.</u></p> <ul style="list-style-type: none"> <li>• <u>Member contributions have been treated correctly as non assessable unless the fund received a notice in accordance with Section 290-170 stating that the member contribution is assessable.</u></li> <li>• <u>Surcharge expenses have not been claimed as a deduction.</u></li> <li>• <u>Capital gains from the disposal of PST's and insurance policies have been excluded from taxable income.</u></li> <li>• <u>Fee rebates and other income from PST's have been excluded from taxable income.</u></li> <li>• <u>Income from assets used to pay current pensions is not assessable and an actuarial certificate been obtained, if required.</u></li> <li>• <u>The non-assessable pension income proportion has been correctly applied to income but not contributions.</u></li> <li>• <u>Cash bonuses (not rebates) received on life insurance policies are not included as taxable income.</u></li> <li>• <u>If the fund derives exempt income have expenses been apportioned between deductible and non-deductible expenses in accordance with Section 8-1 of the ITAA 1997.</u></li> <li>• <u>If the fund pays a complying pension and assets are segregated ensure that income is allocated correctly between assessable and non assessable components.</u></li> <li>• <u>Franking credits from dividends are correctly adjusted.</u></li> <li>• <u>Trust distributions have been correctly appointed to different classes of income and adjusted accordingly</u></li> <li>• <u>Foreign tax credits are correctly adjusted, note that foreign tax credits can only be claimed to the extent of tax payable on foreign income.</u></li> <li>• <u>CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount.</u></li> <li>• <u>Ensure cost base adjustments required by Section 160ZM (relating to differences between accounting and tax distributions from trusts) have been recorded and adjusted correctly.</u></li> <li>• <u>Non arms length income has been correctly identified and tax applied at the appropriate rate.</u></li> </ul>

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<b>Ref</b>	<b>Audit Procedure</b>
<b>O.5</b>	<p>If the fund applies AASB112, check the deferred tax assets and liabilities are correctly calculated and reflected in the financial statements, including:</p> <ul style="list-style-type: none"> <li><u>Deferred tax assets arising from unrealised losses are after discounting.</u></li> <li><u>Deferred tax assets arising from tax losses have only been brought to account where the trustee is confident that these will be recoverable in the future.</u></li> <li><u>Proving the deferred tax assets and liabilities represents the tax effect of timing differences.</u></li> </ul>
<b>O.6</b>	<p>Is the fund has not received a notice advising it is non-complying tax should be calculated at 15% of taxable income.</p>
<b>O.7</b>	<p>Confirm that PAYG instalments and TFN credits paid by the fund during the period have been correctly identified and applied against the current tax liability.</p>
<b>P</b>	<b>GOING CONCERN</b>
<b>P.1</b>	<p>Review the accrued and vested benefits to ensure that they do not exceed the net assets of the fund.</p>
<b>P.2</b>	<p>Review all circumstances, investments, transactions and other matters from the audit to determine if the fund is a going concern.</p>
<b>O</b>	<b>SUBSEQUENT EVENTS</b>
	<ul style="list-style-type: none"> <li>• <u>Identify any subsequent events which would affect the accounts of the current or future periods.</u></li> <li>• <u>Test a sample of receipts and payments after balance date to ensure correct cut off of contributions and benefits.</u></li> <li>• <u>Check for significant fluctuations in investment valuations after period end.</u></li> </ul>
<b>R</b>	<b>OTHER AUDIT CONSIDERATIONS</b>
<b>R.1</b>	<p>If there have been any transactions with related parties, ensure that these matters been appropriately addressed and reported in accordance with the accounting policies adopted by the fund.</p>
<b>R.2</b>	<p>Check whether material commitments and contingencies properly disclosed. Review the following where applicable:</p> <ul style="list-style-type: none"> <li>• <u>Trustee minutes.</u></li> <li>• <u>Solicitors' representations.</u></li> <li>• <u>Trustees' representations.</u></li> <li>• <u>Contracts with investment managers.</u></li> </ul>
<b>S</b>	<b>TRUSTEE REPRESENTATIONS</b>

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<b>Ref</b>	<b>Audit Procedure</b>
	<u>Obtain written representation from the Trustee and seek corroborative evidence on Trustee representations and evaluate the representations appear reasonable and consistent with the other audit evidence and conclusions.</u>
<b>T</b>	<b>COMMUNICATIONS WITH TRUSTEES</b>
	<u>Check that that all relevant people are informed of the matters, if any, arising from the audit on a timely basis.</u>
<b>A.1</b>	

<b>Ref</b>	<b>Audit Procedure</b>	<b>y</b>	<b>w</b>
<b>A</b>	<b>GENERAL</b>		
<del>A.1</del>	<del>Has a current engagement letter been issued?</del>		
<del>A.2</del>	<del>If a new client, has ethical clearance been received from the previous auditor?</del>		
<del>A.3</del>	<del><u>Permanent file:</u> Has the permanent file been updated with the following information carried forward from the prior year current file: • <del>Signed Financial Report.</del> • <del>Annual Return.</del> • <del>Minutes of trustee meetings.</del> • <del>Trust Deed and Amendments.</del> • <del>Fund Summary (where available).</del></del>		
<del>A.4</del>	<del><u>Trust deed</u> Has the Trust Deed Checklist been completed?</del>		

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Ref	Audit Procedure	y e s t e r n a l
A.5	<p>Has the SMSF 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></p>	
A.6	<p><u>Definition of Self Managed Superannuation Fund</u>            Does the SMSF meet the definition of a SMSF?</p>	
A.7	<p><u>Trustee minutes</u>            Review minutes for the year.            Are there any matters that may impact:</p> <ul style="list-style-type: none"> <li>• The financial audit?</li> <li>• The compliance audit?</li> <li>• Solvency of the SMSF?</li> </ul>	
A.8	<p><u>Regulatory matters:</u></p> <ul style="list-style-type: none"> <li>• Is the SMSF currently listed as complying on Super Fund Lookup? <a href="http://www.abn.business.gov.au">www.abn.business.gov.au</a></li> <li>• Are there any outstanding requests from the ATO?</li> <li>• Are there are any issues which are currently being considered by the ATO?</li> <li>• Has a notice of non-compliance has been issued by the ATO?</li> </ul>	
A.9	<p><u>Representation Letter</u>            Has a letter of representation been obtained from the trustees documenting significant representations made during the audit?</p>	
A.10	<p><u>Accounting policies</u>            Obtain an understanding of the relevant accounting policies the trustees have used to prepare the financial report; particularly:</p> <ul style="list-style-type: none"> <li>• Valuation methods and policies.</li> <li>• Method of accounting for taxation.</li> </ul>	

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Ref	Audit Procedure	y e s s e n t i a l
<del>A.11</del>	<p><del><b>Control environment</b></del> Gain an understanding and assess the effectiveness of the SMSF's control environment particularly in the following areas:</p> <ul style="list-style-type: none"> <li><del>• Control over the use of authorised cheque signatories.</del></li> <li><del>• Authorisation of benefit requests.</del></li> <li><del>• Authorisation of redemption of investments.</del></li> <li><del>• Reconciliation of investments.</del></li> <li><del>• Processing and allocation of contributions.</del></li> </ul>	
<del>A.12</del>	<p><del><b>Fraud</b></del> Two types of fraud are most relevant to financial statement audits:</p> <ol style="list-style-type: none"> <li><del>1. fraudulent financial reporting,</del></li> <li><del>2. misappropriation of assets.</del></li> </ol> <ul style="list-style-type: none"> <li><del>• Consider whether business conditions and the SMSF's advisors' and trustees motivations create an environment that is conducive to fraud.</del></li> <li><del>• Consider incentives/pressures and opportunities for the SMSF's advisors and trustees to perpetrate fraud.</del></li> <li><del>• Consider the SMSF's advisors' and trustees attitudes towards the internal control environment.</del></li> </ul>	
<del>B</del>	<del><b>CASH – BANK ACCOUNTS</b></del>	
<del>B.1</del>	<del>Confirm ownership of the bank accounts from the bank statement to the SMSF for each bank account held.</del>	
<del>B.2</del>	<del>Sight original bank statements and review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.</del>	
<del>B.3</del>	<del>Test large and unusual cash payments to ensure these are bona fide and correctly recorded and authorised.</del>	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s / n o  n / a</b>
<b>B.4</b>	Test large and unusual receipts to ensure these are bona fide and correctly recorded.	
<b>B.5</b>	For a sample of receipts, agree the receipts to the source documents and trace to bank statements.	
<b>B.6</b>	For a sample of payments, agree the payments to the source documents and trace to the bank statements.	
<b>B.7</b>	Review bank reconciliations during the year and the year end reconciliation and: <ul style="list-style-type: none"> <li>• Follow up and investigate large, unusual or recurring reconciling items.</li> <li>• Follow up uncleared deposits and un-presented cheques ensuring correct cut off.</li> <li>• Trace un-presented cheques to bank statement subsequent to year end.</li> </ul>	
<b>B.8</b>	Cross reference bank accounts with financial report.	
<b>B.9</b>	<b>Bank Audit Certificate</b> Where banking activities are material to the audit, confirm the bank balance(s) by way of a bank confirmation letter. Seek explanations for any material differences.	
<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 / statement for evidence of existence and ownership of each security (or a material sample of securities).	
<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 according to the accounting policies of the SMSF – generally net market value/market value by reference to publicly available information.	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>y</b>	<b>w</b>
		<b>e</b>	<b>p</b>
		<b>s</b>	<b>#</b>
		<b>f</b>	
		<b>n</b>	
		<b>e</b>	
		<b>n</b>	
		<b>t</b>	
		<b>a</b>	
<b>C.5</b>	Review movements in number of securities held and market values during the year to determine reasonableness of realised/unrealised gains/losses.		
<b>C.6</b>	For a sample of securities agree the receipt of income to the source documents and trace to the bank statement.		
<b>C.7</b>	Review returns from securities over the year for reasonableness.		
<b>D</b>	<b>INVESTMENTS – LISTED SECURITIES</b>		
<b>D.1</b>	Confirm holdings in securities at year end by reference to original statement from broker/ securities dealer and/or Chess Statement from the Share Registry. (Alternative procedure is to verify holdings at year end to dividend statement issued post year end that has a record date at year end or later)		
<b>D.2</b>	Confirm a sample of security holdings with share registries.		
<b>D.3</b>	Consider the appropriateness of the value at which the investments are carried by reference to Stock Exchange quoted closing price. (Securities held at year end are generally valued at market value or net market value).		
<b>D.4</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>		
<b>D.5</b>	For a sample of disposals during the year recalculate the realised gain or loss and trace amount to accounts.		
<b>D.6</b>	Trace a sample of the proceeds from the disposal of listed securities to bank statements.		
<b>D.7</b>	Trace a sample of payments from bank statements to supporting documentation from broker to acquisitions of listed securities.		

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Ref	Audit Procedure	y e s / n o  n / a
D.8	For a sample of investments, agree the receipt of income to the source documents, such as dividend advice, and trace to bank statement.	
D.9	Trace increase in number of shares to dividend reinvestment statements/dividend statements. Ensure that income from dividends included in income section.	
D.10	Where the name of the investment holder does not stipulate that the investment is held by the trustees in trust for the SMSF, sight declaration of trust to ensure ownership lies with the SMSF.	
E	<b>INVESTMENTS – UNLISTED SHARES, TRUSTS &amp; MANAGED FUNDS</b>	
E.1	<u>Unlisted shares</u>	
E.1.1	• Sight original share certificate for evidence of existence and ownership.	
E.1.2	• Sight letter from directors confirming holding in unlisted shares.	
E.1.3	• Ensure shares held at year end are correctly valued according to accounting policy of SMSF (e.g. by reference to the net tangible asset backing per share of the unlisted company).	
E.1.4	• Assess reasonableness of any gains/losses on movement in market value.	
E.2	<u>Unlisted unit trusts</u>	
E.2.1	• Obtain direct third party confirmation of units held and value of units (at redemption price) at year end.	
E.2.2	• Obtain copy of the trust's financial statements and ensure units are fairly valued in accordance with the accounting policy of the SMSF, such as net asset backing of the trust.	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>Y e s / n o  n / a</b>
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 balance or units are valued cum distribution with no distribution 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 to the 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.3	<p><u>Units in PSTs/Managed funds</u></p>	
E.3.1	<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.3.2	<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 SMSF's bank account and records.</li> </ul>	
E.3.3	<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>	
E.3.4	<ul style="list-style-type: none"> <li>• Confirm that the income allocated to the SMSF is net of tax.</li> </ul>	
E.3.5	<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 SMSF's balance date and the number of units on issue.</li> </ul>	
E.3.6	<ul style="list-style-type: none"> <li>• Obtain an auditor's report on internal controls at the PST where available.</li> </ul>	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s / # n o n / a</b>
<b>F</b>	<b>INVESTMENTS – PRIVATE UNIT TRUSTS</b>	
<b>F.1</b>	<b>Private unit trusts</b>	
<b>F.1.1</b>	• Obtain external confirmation of the SMSF's holding in the unit trust at year end.	
<b>F.1.2</b>	• Reconcile SMSF's holding of units to unit trust register and unit trust certificates checking that the unit trust register is up to date, with all issued units included.	
<b>F.1.3</b>	• Obtain unit trust's financial report and vouch major assets and liabilities in unit trust financial report to supporting documentation to confirm the underlying value of the SMSF's investment in the unit trust.	
<b>F.1.4</b>	• Trace applications and redemptions of units in unit trust to unit certificates and to bank statements.	
<b>G</b>	<b>INVESTMENTS – REAL PROPERTY</b>	
<b>G.1</b>	Obtain a listing of real property held by the SMSF, including address, tenant, rental agreement, valuation and title identifier.	
<b>G.2</b>	Perform a title search and ensure the title is in the name of the trustees and the property is held beneficially on behalf of the SMSF.	
<b>G.3</b>	If title is held in personal names, check that a declaration of trust exists for the property.	
<b>G.4</b>	Review title for any encumbrances.	
<b>G.5</b>	Ensure that the property is valued according to the accounting policy – generally at net market value, market value, or the trustees' or independent valuation.	
<b>G.6</b>	Obtain details as to the basis of the valuation of the property and assess any assumptions used for reasonableness.	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s / n o  n / a</b>	<b>w / #</b>
<b>G.7</b>	Assess the appropriateness of the type of valuation with consideration as to the materiality of the property to the SMSF as a whole.		
<b>G.8</b>	Where appropriate, ensure an independent valuation is performed on the property at least every 3 years.		
<b>G.9</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.10</b>	Consider the appropriateness of the lease term and rental amount to determine if conditions are on a commercial basis.		
<b>G.11</b>	Determine who the lessee is and consider if additional disclosures need to be made (e.g. related party).		
<b>G.12</b>	Vouch additions, disposals and expenses to supporting documentation.		
<b>G.13</b>	If applicable, review the amortisation/depreciation schedule.		
<b>G.14</b>	If property was not purchased wholly by the SMSF, consider impact on the SMSF of changes in the circumstances of the other owner.		
<b>G.15</b>	Determine whether appropriate landlord, building and contents insurance been arranged either by the SMSF or by the tenant.		
<b>H</b>	<b>INVESTMENTS – EXTERNALLY MANAGED</b>		
<b>H.1</b>	Obtain an understanding as to the terms of the agreement between the trustees and the investment manager, including the extent to which responsibility is delegated to the manager.		
<b>H.2</b>	Check that investments held are in accordance with the guidelines set down by the trustees in the management agreement.		

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<b>Ref</b>	<b>Audit Procedure</b>	<b>Y e s / n o  n / a</b>
<b>H.3</b>	Where separate records are maintained by the trustees, reconcile these to the reports produced by the investment manager to determine accuracy of contributions and benefits, and particularly to establish correct cut-off.	
<b>H.4</b>	Where access is allowed to the systems of the investment 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.5</b>	Where access is not available to the investment manager's control system, obtain an audited controls report from the investment manager in respect of control over investments, allocation of income and accuracy of tax balances.	
<b>H.6</b>	Where access is not available to the investment manager's records, obtain a report from the investment manager's auditor in relation to specific financial statement assertions.	
<b>H.7</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.8</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 modification is required to the auditor's report.	
<b>H.9</b>	Review movements in investment holdings and 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>	
<b>H.10</b>	<b>Master Custodian</b>	
<b>H.10.1</b>	• obtain valuation reports at balance date and compare to SMSF accounts.	
<b>H.10.2</b>	• Separately review valuation of unlisted investments and consider confirming these separately.	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

Ref	Audit Procedure	y e s t e d	w a i t e d
<del>H.10.3</del>	<del>Obtain audited controls report or audited statements from the custodian, prepared under GS007.</del>		
<del>I</del>	<del><b>INVESTMENTS – OTHER ASSETS</b></del>		
<del>I.1</del>	<del>Review the reasonableness of the valuation of the in-house assets and the potential for recovery. Review the terms of the borrowing agreement to assess the commercial reality of the investment.</del>		
<del>I.2</del>	<del>Vouch other assets / receivables to supporting documentation or subsequent receipts.</del>		
<del>I.3</del>	<del>Establish ownership of the asset and consider appropriateness of the basis of valuation.</del>		
<del>J</del>	<del><b>CONTRIBUTIONS</b></del>		
<del>J.1</del>	<del>If available, reconcile member and employer contributions between employer general ledger and transaction listings produced by the employer 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.</del>		
<del>J.1.1</del>	<del>For concessional contributions</del> <ul style="list-style-type: none"> <li><del>Test to sponsoring or associated employer cash payments, if available, or obtain employer confirmation that contributions were made.</del></li> <li><del>Test that they have been allocated to the member for whom they were remitted.</del></li> </ul>		
<del>J.1.2</del>	<del>For non concessional contributions</del> <ul style="list-style-type: none"> <li><del>Test to, where applicable, total of payroll deductions or employer remittances.</del></li> <li><del>Test that they have been allocated to the member for whom they were remitted.</del></li> </ul>		

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s t n o n e a</b>
J.1.3	<p>For employer contributions to defined benefit funds</p> <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>	
J.1.4	Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.	
J.2	<p>Completeness of contributions:</p> <ul style="list-style-type: none"> <li>• Obtain listing of contributions received by each member broken down into concessional and non-concessional contributions, noting the dates of receipt.</li> <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> <li>• Trace contributions near year end to bank statement to test for cut-off.</li> </ul>	
J.3	If available obtain an audited controls report from the employer sponsor regarding the payroll and cash payments systems effecting contributions to the SMSF. Obtain direct confirmation of contributions paid and agree to remittance advices received by the fund administrator or investment manager.	
J.4	Obtain listing of all Transfers in and vouch to transfer documentation ensuring that the transfer in, is from a complying and previously taxed source.	
J.5	Verify and trace sample of contributions to employer remittance advice (if available).	
J.6	Verify and trace sample of contributions to the bank statement.	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

Ref	Audit Procedure	y e s t e r n a l
<b>K</b>	<b>CONTRIBUTIONS RECEIVABLE</b>	
<b>K.1</b>	Review the ageing of the amounts receivable and obtain explanation of any delay in receipt of contributions. <sup>*</sup> <i>*Important to ensuring contributions caps are not breached.</i>	
<b>K.2</b>	Through review of bank statements post balance date determine whether contributions receivable are correctly accrued.	
<b>K.3</b>	Where contributions have subsequently been received trace amount accrued to the remittance advice, and bank or other transaction statement	
<b>K.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>	
<b>L</b>	<b>INVESTMENT REVENUE</b>	
<b>L.1</b>	Perform an analytical review of revenue generally and assess for reasonableness in comparison to: <ul style="list-style-type: none"> <li>• The prior year's revenue.</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>L.2</b>	Vouch major items of revenue ensure that the payment is made to the SMSFs bank account.	
<b>L.3</b>	Agree dividends on listed securities to dividend yield or dividend payable quoted in the financial press, ASX or other provider of financial information.	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s t e r n a l</b>
<del>L.4</del>	<del>Agree interest rates to rates quoted by major banks or the rates quoted in the financial press and assess for reasonableness.</del>	
<del>L.5</del>	<del>Where SMSF has dividend reinvestment plans, ensure that revenue is captured for reporting and taxation purposes.</del>	
<del>L.6</del>	<del>Review investment statements from fund managers to ensure all revenue recognised.</del>	
<del>L.7</del>	<del>Review rental agreement or statement from real estate agents to ensure all rental revenue is recognised, received regularly or accrued.</del>	
<del>L.8</del>	<del>Review unit trust financial statements to determine whether trust distributions paid.</del>	
<del>L.9</del>	<del>Review dividend statements to ensure all dividend revenue received and franking credits recorded correctly.</del>	
<del>L.10</del>	<del>Trace a sample of dividend revenue to bank statements to ensure all revenue recognised, or that revenue has been reinvested.</del>	
<del>L.11</del>	<del>Review bank statements for deposits, dividends and other credits and interest payments to ensure that all revenue captured.</del>	
<del>L.12</del>	<del>Other accrued revenue</del>	
<del>L.12.1</del>	<del>• Vouch accrued revenue amounts to subsequent receipt or perform other procedures to determine reasonableness of accrual.</del>	
<del>L.12.2</del>	<del>• Ascertain the nature of the income (i.e. taxable or exempt).</del>	
<del>L.12.3</del>	<del>• Review statements to ensure no TFN tax withheld, and if so ensure treated correctly.</del>	
<del>L.12.4</del>	<del>• Check that any foreign tax credits are treated correctly.</del>	
<del>M</del>	<del><b>MOVEMENT IN INVESTMENT VALUE</b></del>	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s / # n o  n / a</b>
<b>M.1</b>	Review calculation of the Movement in Investment Value to ensure performed correctly in accordance with SMSE's accounting policies.	
<b>M.2</b>	Check that separate calculations performed for realised and unrealised investments.	
<b>M.3</b>	Check that change in net market or market value only includes unit linked or price based investments and not interest bearing investments.	
<b>N</b>	<b>EXPENSES &amp; ACCOUNTS PAYABLE</b>	
<b>N.1</b>	Perform an analytical review of expenses generally and assess for reasonableness in comparison to the prior year's expenditure.	
<b>N.2</b>	Vouch major items such as accounting fees, insurance to invoices. If applicable, vouch 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 SMSE.</li> </ul>	
<b>N.3</b>	Investigate whether there are any sundry accounts or benefits payable? If so for sundry accounts payable:	
<b>N.3.1</b>	• Vouch significant amounts to invoices or other supporting documentation.	
<b>N.3.2</b>	• Search for unrecorded liabilities through testing of subsequent payments, review of minutes etc.	
<b>N.4</b>	Confirm or vouch prepayments and other current assets that are not investments and assess for reasonableness.	
<b>Ø</b>	<b>BENEFIT PAYMENTS AND TRANSFERS</b>	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>Y e s / n o  n / a</b>
0.1	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.	
0.2	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>	
0.3	Test the calculation of benefits paid for compliance with the trust deed:	
0.3.1	<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 SMSF's earning rates and reasonableness of interim earning rate calculations. Agree member information to Trust minutes and records.</li> </ul>	
0.3.2	<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 or highest average salary and years of service to payroll, personnel records or trust records.</li> </ul>	
0.3.3	<ul style="list-style-type: none"> <li>• For death benefits, sight death certificate.</li> </ul>	
0.3.4	<ul style="list-style-type: none"> <li>• Did the deceased member have a binding death nomination (BDN) form. If so, was the benefit paid in accordance with the BDN form?</li> </ul>	
0.3.5	<ul style="list-style-type: none"> <li>• For a total and permanent disability benefit, sight the medical certification regarding the inability of the member to work again.</li> </ul>	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

<b>Ref</b>	<b>Audit Procedure</b>	<b>y e s t e r n e r a r y</b>
<del>Q.3.6</del>	<del>• For a total and temporary permanent disability benefit, sight the medical certification regarding the ability of the member to work again.</del>	
<del>Q.4</del>	<del>For each benefit paid:</del>	
<del>Q.4.1</del>	<del>• Vouch authority for benefit payment request, by signatory.</del>	
<del>Q.4.2</del>	<del>• Perform an addition check and review interest calculation on benefit calculation.</del>	
<del>Q.4.3</del>	<del>• Trace payment of benefit to the bank statement.</del>	
<del>Q.4.4</del>	<del>• Trace tax deducted and paid by SMSE where appropriate.</del>	
<del>Q.4.5</del>	<del>• Check that benefit calculated in accordance with Trust Deed.</del>	
<del>Q.4.6</del>	<del>• Check that member's contributions 100% vested.</del>	
<del>Q.4.7</del>		
<del>Q.5</del>	<del>Sundry accounts or benefits payable:</del>	
<del>Q.5.1</del>	<del>• Determine accuracy of recorded amounts and search for unrecorded benefits payable through testing of subsequent payments.</del>	
<del>Q.5.2</del>	<del>• Confirm the benefit received by the beneficiary (i.e. Confirmation letter).</del>	
<del>Q.5.3</del>	<del>• For any death or disability benefit, ensure that corresponding or applicable insurance claim is recovered.</del>	
<del>Q.5.4</del>	<del>• Check that death benefit paid to the beneficiary noted in trustee minutes.</del>	
<del>P</del>	<del><b>PENSION PAYMENTS</b></del>	
<del>P.1</del>	<del>• Sight trustee minute confirming member's request for pension, and trustees' acknowledgement and agreement to pay pension.</del>	
<del>P.2</del>	<del>• Agree pension paid to payment summary issued, if under 60 years of age.</del>	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

Ref	Audit Procedure	y e s t e r n a l
<del>P.3</del>	<del>Trace sample of pension payments to bank statements.</del>	
<del>P.4</del>	<del>For a transitional to retirement income stream, ensure any amounts over maximum annual pension amount is treated as an eligible termination payment.</del>	
<del>P.5</del>	<del>Confirm receipt of pension where amount is material.</del>	
<del>P.6</del>	<del>Account based income streams:</del>	
<del>P.6.1</del>	<del>Check that members has been advised of the minimum limits for the year.</del>	
<del>P.7</del>	<del>Transition to Retirement income streams:</del>	
<del>P.7.1</del>	<del>Check that members have been advised of the minimum and maximum pension limits for the year.</del>	
<del>P.8</del>	<del>Market Linked Income Stream:</del>	
<del>P.8.1</del>	<del>Check that member has been advised of pension for coming year.</del>	
<del>P.8.2</del>	<del>Check that members has been advised of the minimum and maximum pension limits for the year.</del>	
<del>P.8.3</del>	<del>Check that pension is paid at least annually</del>	
<del>P.9</del>	<del>Complying / Non-Complying Pension:</del>	
<del>P.9.1</del>	<del>Check that member has been advised of pension for coming year.</del>	
<del>P.9.2</del>	<del>Check that pension is paid at least annually.</del>	
<del>P.9.3</del>	<del>Check that correct indexation being used (as determined when pension established).</del>	
<del>Q</del>	<del><b>LIABILITIES</b></del>	
<del>Q.1</del>	<del>Review the value at which liabilities have been disclosed in the accounts and vouch to supporting documentation.</del>	
<del>Q.2</del>	<del>Review documentation supporting for each liability account, assessing whether the amount and nature of accruals appears reasonable.</del>	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>y</b>	<b>w</b>
		<b>e</b>	<b>p</b>
		<b>s</b>	<b>#</b>
		<b>f</b>	
		<b>n</b>	
		<b>e</b>	
		<b>n</b>	
		<b>t</b>	
		<b>a</b>	
<del>Q.3</del>	<del>Vouch payment of liability / accrual subsequent to year end by reviewing payments from bank statement.</del>		
<del>Q.4</del>	<del>Review ageing of liabilities/payables and comment on any delay in payment.</del>		
<del>Q.5</del>	<del>Vouch prior year payable/accrual as paid during the year, or else re-accrue or adjust against income/expense item.</del>		
<del>Q.6</del>	<del>Test for unrecorded liabilities by reviewing client documentation and subsequent payments. Review prior year accounts to identify expenses that have paid for in previous years but not paid/accrued for this year.</del>		
<del>Q.7</del>	<del>Obtain a list of all Benefits Payable at year end.</del>		
<del>Q.8</del>	<del>Agree a sample of the benefit payable to the supporting documentation for benefit payments subsequent to year end to ensure the benefit was actually outstanding at year end.</del>		
<del>Q.9</del>	<del>Review file of pending benefit payments to ensure that all benefits payable are taken up as payable.</del>		
<del>Q.10</del>	<del>Vouch payment of sample of benefits to bank statements subsequent to year end.</del>		
<del>Q.11</del>	<del>Vouch sample of prior year benefits payable and ensure either paid during the year or included as payable this year.</del>		
<del>R</del>	<del><b>MEMBER ACCOUNT BALANCES</b></del>		
<del>R.1</del>	<del>Agree the total balances to the SMSF Financial Report.</del>		
<del>R.2</del>	<del>Obtain listing of all members account balances and check that figure balances with vested figure in financial statements.</del>		
<del>R.3</del>	<del>Check that total vested benefit does not exceed net assets.</del>		
<del>R.4</del>	<del>Testing of member statements as follows:</del>		

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Ref	Audit Procedure	y e s t e r n e r a
R.4.1	<ul style="list-style-type: none"> <li>ensure opening balance correct and accuracy of all calculations i.e. do add check, review of interest calculation and tax calculation, ensure administration expenses and Insurance. Premiums reasonable per agreement</li> </ul>	
R.4.2	<ul style="list-style-type: none"> <li>Cross check the insurance premium for all statements with the premiums paid.</li> </ul>	
R.4.3	<ul style="list-style-type: none"> <li>confirm vesting in accordance with SIS Regulations and Trust Deed.</li> </ul>	
R.4.4	<ul style="list-style-type: none"> <li>ensure members' resignation benefit is at least members' vested benefits as at balance date.</li> </ul>	
R.4.5	<ul style="list-style-type: none"> <li>vouch crediting rate to trustee minute declaring rates.</li> </ul>	
R.4.6	<ul style="list-style-type: none"> <li>ensure contribution levels in accordance with the Deed or actuarial report</li> </ul>	
R.4.7	<ul style="list-style-type: none"> <li>vouch surcharge deducted to assessment issued by the ATO</li> </ul>	
R.4.8	<ul style="list-style-type: none"> <li>sight membership application for any new members</li> </ul>	
S	<b>TAXATION</b>	
S.1	<p>Is the SMSF a complying fund for tax purposes? If so:</p> <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>	
S.2	<p>If not:</p> <ul style="list-style-type: none"> <li>ensure tax is provided at the top marginal rate for the year of income</li> </ul>	
S.3	<p>Obtain 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.</p>	
S.4	<p>Assessable income calculation:</p>	

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<b>Ref</b>	<b>Audit Procedure</b>	<b>Y e s / n o  n / a</b>
S.4.1	<ul style="list-style-type: none"> <li>• Concessional (employer) contributions, including salary sacrifice shortfall components under the Superannuation Guarantee (Administration) Act</li> </ul>	
S.4.2	<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>	
S.4.3	<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 SMSF can use the CGT discount method, the SMSF should pay tax at 10% on those gains</li> </ul>	
S.5	<p>Exclusions from assessable income:</p> <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>	
S.6	<p>Check that correct treatment of the following where applicable:</p> <ul style="list-style-type: none"> <li>• imputation credits</li> <li>• foreign tax credits</li> </ul>	
S.7	<p>Check that deductions are correctly calculated and include the following, where applicable:</p> <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>	
T	<b>OTHER AUDIT CONSIDERATIONS</b>	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

Ref	Audit Procedure	y e s / n o  n / a
<del>T.1</del>	<del>Reserves</del> <ul style="list-style-type: none"> <li><del>• Review schedule of any movements in reserves.</del></li> <li><del>• Ensure all movements are in accordance with the SMSF's reserve strategy.</del></li> </ul>	
<del>T.2</del>	<del>Foreign investments and transactions in foreign currencies:</del>	
<del>T.2.1</del>	<del>• Ensure transactions are properly recorded.</del>	
<del>T.2.2</del>	<del>• Ensure correct exchange rates are used.</del>	
<del>T.2.3</del>	<del>• Ensure correct calculation of any foreign currency gains or losses.</del>	
<del>T.3</del>	<del>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].</del>	
<del>T.4</del>	<del>Have there been any transactions with related parties? If so, ensure these transactions are properly disclosed in the related party note.</del>	
<del>T.5</del>	<del>Are material commitments and contingencies properly disclosed? Review the following where applicable:</del> <ul style="list-style-type: none"> <li><del>• Trustee minutes.</del></li> <li><del>• Solicitors' representations.</del></li> <li><del>• Trustees' representations.</del></li> <li><del>• Contracts with investment managers.</del></li> </ul>	
<del>T.6</del>	<del>Is the SMSF a defined benefit fund?</del>	
<del>T.6.1</del>	<del>If so:</del> <ul style="list-style-type: none"> <li><del>• Ensure actuarial reviews are performed every three years.</del></li> </ul>	

**Guidance Statement GS 009 Financial and Compliance Audits of Self Managed Superannuation Funds**

Ref	Audit Procedure	y e s s e n c e
T.6.2  T.6.3	<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> <li>● Ensure the information on which the actuarial review is based is correct, including members' salaries, years of service and contribution rates</li> </ul>	
T.7	<p>Does the actuarial review of a defined benefit fund disclose a deficiency in accrued benefits? 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>	
T.8	<p>Does the actuarial review of a defined benefit fund disclose a deficiency in vested benefits? 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 be modified</li> </ul>	
T.9  T.9.1 T.9.2 T.9.3 T.9.4 T.9.5	<p>Is this audit, an initial audit of the SMSF: If so, was this SMSF previously audited by another auditor? If yes:</p> <ul style="list-style-type: none"> <li>● Have the assets and liabilities been presented in the broad order of the liquidity?</li> <li>● Do comparatives agree to prior year audited financial statements?</li> <li>● Does the financial report, including notes, add up?</li> <li>● Check cross referencing of notes, page numbering</li> <li>● Have notes to the financial statements been audited?</li> </ul>	

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Ref	Audit Procedure	y e s t e r n a l
T.9.6	• Have disclosures within the notes to the financial statements accounting framework been used to prepare the accounts and have they been prepared in a consistent manner?	
T.9.7	• Have the policies been applied by the SMSF?	
T.9.8	• Are they consistent with prior years?	
U	<b>MANAGEMENT REPRESENTATIONS</b>	
U.1	Obtain written representation from the trustees, especially on matters material to the financial audit and compliance audit.	
U.2	Evaluate the representations reasonableness and consistency with the other audit evidence and conclusions.	
V	<b>COMMUNICATIONS WITH THE TRUSTEES</b>	
V.1	Check that all relevant people are informed of the matters, if any, arising from the audit.	
V.2	Check that that any communication is sent on a timely basis.	

**APPENDIX 5**

**ILLUSTRATIVE EXAMPLES OF INDEPENDENCE**

The following table provides examples of some of the scenarios which practitioners may face when auditing SMSFs, the type of threats to independence the scenarios present and appropriate safeguards which may address those threats<sup>57</sup>.

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
1. A sole practitioner prepares an SMSF's accounts and performs the financial and compliance audits.	X	X				No safeguards are available which would enable the practitioner to perform both the accounting and audit work, as this involves the auditor reviewing their own work. The auditor

<sup>57</sup> These examples are based on the Accounting Professional and Ethics Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants*. This eCode of ~~conduct Ethics~~ 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.

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
						withdraws from either the accounting or audit engagement. The sole practitioner may enter a reciprocal arrangement with another practitioner for referral of SMSF audit engagements <del>for which each provide other advisory or administrative services.</del>
2. A <del>sole practitioner signs auditor's report for an SMSF and uses staff to perform an SMSF's</del> financial and compliance <del>audits</del> <u>audit work</u> and <del>signs the auditor's report, whilst the practitioner's staff to</del> prepare the SMSF's accounts.	X	X			X	No safeguards are available which would enable the practitioner to <del>perform the audit work or</del> sign the auditor's report as well as supervising the accounting work, as <del>this is no different from</del> the practitioner <u>is ultimately responsible for the accounting work and so this amounts to reviewing their own work</u> <del>as they are responsible for their staff's work</del> . The auditor withdraws from either the accounting or audit engagement.

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
3. A sole practitioner provides financial advice and audits the SMSF.	X	X	X			<p>No safeguards are available which would enable the practitioner to perform both the financial advisory and audit work, as this involves the auditor in <del>reviewing their own work</del> <u>assessing the compliance implications of their own advice</u>.</p> <p>The auditor withdraws from either the financial advisory or the audit engagement. The sole practitioner may enter a reciprocal arrangement with another practitioner for referral of SMSF audit engagements <del>for which each provide other advisory or administrative services</del>.</p>

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
4. A two partner practice <del>where-in which</del> one partner prepares the SMSF's accounts and the other partner conducts the audit. Common staff <del>prepare the financial reports work on both engagements.</del>	X	X			X	Threats may be overcome by applying safeguards which include putting a "Chinese wall" <sup>58</sup> in place between the two partners and their respective teams along with removal of staff who prepare the <del>financial reports accounts</del> from the audit team.
5. A two partner practice where one partner provides financial advice to the SMSF, <del>and</del> the other partner audits the SMSF and <del>staff prepares</del> the SMSF's accounts.	X	X	X		X	Threats may be overcome by applying safeguards which include each of the two partners performing one of the engagements, with a "Chinese wall" between them, and they withdraw from the third engagement. For example, if one partner conducts the financial

<sup>58</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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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
						advisory work, the second partner prepares the accounts then the firm withdraws from the audit and segregates the staff working on the engagements retained.
6. A firm prepares the SMSF's income tax return and also undertakes the audit of the SMSF.	X	X	X			Threats may be overcome by <u>withdrawing from either the tax advisory or the audit engagement or referring the audit work to another practitioner under a reciprocal arrangement for referral of SMSF audit engagements.</u> <u>Alternatively,</u> safeguards <u>which may</u> include allocating the taxation work to one partner, the audit work to another and putting a "Chinese wall" in place between the two partners and their respective teams.
7. A sole practitioner audits numerous SMSFs but they are all administered by the same service provider who	X				X	Safeguards include expanding the client base so that reliance on the administrator is reduced, declining to accept any further audits from the

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
engages the auditor on behalf of the trustees, so the sole practitioner is very reliant on fees from a single engaging party.						administrator and ensuring that the practitioner has direct access to the trustees of each SMSF so that matters arising during the audit can be communicated without fear of intimidation.
8. A member of the audit engagement team <del>having</del> has a close or immediate relationship with the trustees of the SMSF. The auditor signing the audit opinion supervises the team member's work.				X		Safeguards include removing the audit member from the audit engagement team.
9. <del>A member of the</del> audit team has provided accounting advice in relation to a <u>material</u> transaction of the SMSF.			X			Safeguards include <u>transferring the audit engagement to another partner of the firm</u> , removing <del>the</del> any audit team members <u>involved in providing advice</u> from the audit engagement team <u>and ensuring that adequate chinese walls are in place or referring the audit to another firm</u> .

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
10. One partner in a multi-partner practice has had the SMSF as an audit client for “years” and regularly socialises with the SMSF’s trustee.				X		The long and personal association with the trustee may compromise the partner’s objectivity. Safeguards include passing the engagement to another partner with appropriate “Chinese walls” in place, review of the audit findings including conclusions on significant matters arising in the audit by another partner prior to sign-off of the audit opinion or rotation of the engagement partner periodically.
11. A practitioner or firm providing administrative, <del>taxation, accounting</del> services <del>or investment advice</del> to numerous SMSFs, outsources all of the SMSF audits to one approved auditor.	X			X	X	<del>Safeguards include direct engagement of the approved auditor by the trustees so that the auditor is able to report directly to the trustees and the auditor expanding their client base so that reliance on the advisor for audit work is reduced. The practitioner has implemented appropriate safeguards to avoid a self-review threat by referring the audit work to another auditor and it is the responsibility of that auditor</del>

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
						<u>to ensure that they are not so reliant on the work of the referring practitioner as to create a self interest or intimidation threat.</u>

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