Agenda Item 6.1
AUASB Meeting 15 September 2015
Marked Up Version

GS 009
(~~September 2013~~September 2015)

Guidance Statement GS 009 *Auditing Self-Managed Superannuation Funds*

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

DISCLAIMER

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.

Australian Government
Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Level 7, 600 Bourke Street
Melbourne Victoria 3000 AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA

ISSN 1833-7600

CONTENTS

AUTHORITY STATEMENT

APPENDICES

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 009- *Auditing Self-Managed Superannuation Funds*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on 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 material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new requirements.

Dated:

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 009

Auditing 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 audit of a self-managed superannuation fund's (SMSF's) special purpose financial report, (financial audit); and

   (b) the audit of a SMSF's compliance with the *Superannuation Industry* (*Supervision*) *Act 1993* (SISA) and the *Superannuation Industry* (*Supervision*) *Regulations 1994* (SISR) (compliance engagement).

2. This Guidance Statement does not apply to Australian Prudential Regulation Authority (APRA) regulated superannuation entities.[1]

Issuance Date

3. This Guidance Statement is issued on 30 September 2013 by the AUASB and replaces GS 009 *Auditing Self-Managed Superannuation Funds*, issued in ~~August~~ September ~~2011~~2013. The content of this Guidance Statement includes reference to requirements which came into effect in ~~2012~~ 2014 and ~~2013~~2015.

Introduction

4. SMSFs are a specific type of superannuation fund which have fewer than five members and are regulated by the Australian Taxation Office (ATO). In addition, the SISA[2] gives ASIC the responsibility for the registration of approved SMSF auditors and setting competency standards. SMSFs are primarily governed by the requirements of the SISA, SISR, the *Income Taxation Assessment Acts 1936* and *1997* (ITAA) and ~~the~~ a fund's governing rules ~~(formerly referred to as the trust deed)~~, which include the trust deed and applicable ~~case law~~legislation. Complying SMSFs are eligible for tax concessions, and may also receive Superannuation Guarantee (SG) contributions. Complying SMSFs are Australian superannuation funds which meet the requirements of the SISA and SISR and are "regulated"[3] under the SISA.

5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),[4] who is required to complete both the financial audit and the compliance engagement and sign the auditor's report before a SMSF may submit its Annual Return.[5] The auditor reports to the trustees[6] in the "approved form", as issued and updated from time to time, by the ATO,[7] which includes opinions under two sections:

   (a) Part A: Financial report; and

   (b) Part B: Compliance report.

---

[1] Auditors of APRA regulated superannuation entities, particularly auditors of Small APRA funds, may find this Guidance Statement useful in designing, planning and conducting their audits, but it does not relate specifically to APRA funds.

[2] See Division 1, Section 6 of the SISA.

[3] Regulated funds, under section 19 of the SISA, are funds which have a trustee, either a corporate trustee or governing rules which contain a pension fund and have made an irrevocable election to become regulated in the approved form within the specified time.

[4] Approved SMSF auditor is defined in paragraph ~~12~~13.

[5] The SMSF Annual Return (NAT 71226) comprises income tax reporting, regulatory reporting and member contributions reporting.

[6] The use of the terminology trustee and trustees is used interchangeably throughout this document. Trustee or trustees include collective group trustees or trustee body of a SMSF.

[7] The approved form auditor's report is contained within the *Instructions and form for approved SMSF auditors - Self-managed superannuation fund independent auditor's report* (NAT11466). The auditor's report ~~has been reproduced in Appendix 3 of this Guidance Statement and~~ is available from the ATO's website www.ato.gov.au/Superfunds.

6. This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which the auditor has with respect to conducting SMSF audit engagements, and to provide guidance to the auditor on matters which the auditor considers when planning, conducting and reporting on the financial audit and compliance engagement of a SMSF.

7. This Guidance Statement does not extend the responsibilities of the auditor beyond those which are imposed by the SISA, SISR, Australian Auditing Standards (Auditing Standards), Standards on Assurance Engagements (ASAEs) or other applicable legislation.

8. This Guidance Statement comprises:

   (a) an introductory section, which provides guidance on matters common to both the financial audit and compliance engagement;

   (b) Part A, which provides guidance on the financial audit; and

   (c) Part B, which provides guidance on the compliance engagement.

9. This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to the requirements and guidance contained in:

   (a) the Australian Auditing Standards , in which references to the “auditor” includes an approved SMSF auditor conducting the financial audit of a SMSF;

   (b) applicable Standards on Assurance Engagements , specifically ASAE 3100 *Compliance Engagements*, in which references to the “assurance practitioner” include an auditor conducting a compliance engagement of a SMSF;

   (c) the SISA and SISR;

   (d) Applicable ATO Rulings, Interpretive Decisions (ID) and Guides and the Income Tax Assessment Acts; and

   (e) Applicable ASIC Regulatory Guides and Class Orders.[8]

~~(e)~~10. This Guidance Statement does not provide guidance on auditing a defined benefit fund[9] as these funds are not generally prevalent as SMSFs.

Definitions

~~10.~~11. A SMSF meets the definition of a SMSF of the SISA[10] if:

   (a) it has 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, in which case the sole member is either:

      (i) a director of the corporate trustee or one of two directors who are related or, if unrelated, the member is not an employee of the other director; or

      (ii) one of two individual trustees who are related or, if unrelated, the member is not an employee of the other trustee;

   (c) each member of the fund is a trustee or a director of the corporate trustee;

   (d) no member is an employee of another member, unless they are relatives; and

[8] Further detail is available at www.asic.gov.au/smsf-auditor.
[9] Defined Benefit Fund defined in Regulation 1.03(1) of the SISR.
[10] See s~~S~~ubsections 17A(1) & (2) of the SISA.

(e) no trustee, or director of a corporate trustee, receives remuneration for any duties or services performed by a trustee or director in relation to the fund, other than where there is exception and the trustee has the skills to perform the service.[11]

~~11.~~12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA[12] if:

(a) a member of the fund has died and the legal personal representative of the member is a trustee of the fund or a director of a body corporate that is the trustee of the fund, in place of the member, during the period:

(i) beginning when the member of the fund died; and

(ii) ending when death benefits commence to be payable in respect of the member of the fund; or

(b) the legal personal representative of a member of the fund is a trustee of the fund or a director of a body corporate that is the trustee of the fund, in place of the member, during any period when:

(i) the member of the fund is under a legal disability; or

(ii) the legal personal representative has an enduring power of attorney[13] in respect of the member of the fund; or

(c) if a member of the fund is under a legal disability because of age and does not have a legal personal representative - the parent or guardian of the member is a trustee of the fund in place of the member; or

(d) an appointment under section 134 of an acting trustee of the fund is in force.

~~12.~~13. An approved SMSF auditor[14] is a person who is registered as an approved SMSF auditor with ASIC[15,~~16~~] but does not include:

(a) a person for whom an order disqualifying that person from being an approved SMSF auditor is in force; or

(b) a person who is disqualified from being or acting as an auditor of any superannuation ~~entities~~entity.

Trustees' Responsibilities

~~13.~~14. The responsibilities of the SMSF's trustees are contained in the SISA, SISR, and the governing rules of the fund. The trustees have ultimate responsibility for the compliance of the SMSF with the SISA and SISR and any other legislation, such as the taxation legislation affecting SMSFs. Certain covenants affecting the behaviour of the trustees of a SMSF are deemed to be contained in the SMSF's governing rules under section 52B and 52C[~~17~~] of the SISA, which are in summary:

(a) to act honestly;

(b) to exercise care, skill and diligence;

11 Section 17B of the SISA allows for exceptions in relation to remunerations of trustees.
12 See ~~Subsections~~ subsections 17A (3) & (4) of the SISA.
13 The applicability of enduring powers of attorney in this circumstance will vary depending on the relevant state legislation. Guidance is also provided in Self-Managed Superannuation Funds ATO Ruling *SMSFR 2010/2*.
14 See ~~Subsection~~ subsection 10(1) of the SISA.
15 See SISA section 128B and ASIC Regulatory Guide 243 *Registration of self-managed superannuation fund auditors* provides guidance on how to apply for registration as an approved SMSF auditor.
~~16 From 1 July 2013, an assurance practitioner is required to be registered with ASIC in order to undertake the audit of an SMSF for any reporting year.~~
~~17 From 1 July 2013, these covenants are contained in sections 52B and 52C of the SISA.~~

(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 employer-sponsor of the SMSF or their associates;[18]

(e) not to enter into a contract or agreement that would hinder the trustees in properly performing their duties;

(f) if applicable to the fund, to formulate and give effect to a reserves strategy;

(g) to formulate, review regularly and give effect to an investment strategy; and

(h) to allow beneficiaries access to prescribed information and documentation.

The trustees' compliance responsibilities are summarised~~summarised in the ATO's Guide for SMSF trustees *Running a self-managed super fund*~~. on the self-managed super funds page of the ATO's website. [19]

~~14.~~15. The trustees of a SMSF are required, under the SISA, to ensure that financial reports of the SMSF are prepared and signed for each year of income and that an approved SMSF auditor is appointed no later than 45 days before the due date ~~of the~~for lodgement of the SMSF annual return.[20]

Auditor's Responsibilities

~~15.~~16. The professional obligations of approved SMSF auditors under the SISA[21] are to:

(a) complete the continuing professional development requirements prescribed by the regulations;[22]

(b) hold a current policy of professional indemnity insurance;[23]

(c) comply with:

(i) any competency standards[24] ASIC determines;

(ii) any standards issued by the Auditing and Assurance Standards Board (unless not considered applicable to the audit of that particular SMSF); under:

◊ section 336 of the *Corporations Act 2001;*or

◊ section 227B of the *Australian Securities and Investments Commission Act 2001;* and

(d) comply with the auditor independence requirements produced by the Accounting Professional and Ethical Standards Board Limited and set out in APES 110 *Code of Ethics for Professional Accountants* as prescribed by the regulations.[25]

~~16.~~17. In addition, approved SMSF auditors may be subject to competency requirements, for the audit of SMSFs, by virtue of their membership of a professional body.[26] For example,

18 See ~~Regulation~~ regulation 4.09A of the SISR.

19 ~~The ATO's Guide for SMSF trustees *Running a self-managed super fund* (NAT 11032) is available at www.ato.gov.au/Superfunds~~See https://www.ato.gov.au/Super/Self-managed-super-funds

20 See ~~Regulation~~ regulation 8.02A of the SISR ~~effective 1 July 2013 and will be applicable for audits conducted on after that date~~.

21 See ~~S~~subsection 128F of the SISA.

22 See ~~Regulation~~ regulation 9A.04 of the SISR.

23 See ~~Regulation~~ regulation 9A.05 of the SISR.

24 See ASIC Class Order CO 12/1687 *Competency Standards for approved SMSF auditors*.

25 See ~~Regulation~~ regulation 9A.06 of the SISR.

26 See ~~Competency~~ competency standards for Fellows of the National Tax and Accountants' Association (NTAA) auditing SMSFs (December 2008) issued by NTAA.

members of CPA Australia, Institute of Chartered Accountants Australia and New Zealand (ICAANZ) and Institute of Public Accountants (IPA) are required to comply with competency requirements[27] when accepting and conducting SMSF audits. These 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. Auditors ensure that they are up-to-date and compliant with any applicable competency requirements imposed by their professional bodies in accepting and conducting SMSF audits.

~~17.~~18. The auditor is required under the SISA to:

(a) provide an auditor's report on the SMSF's operations for the year to the trustees in the approved form,[28] ~~within~~ no longer than 28 days after the trustee of the fund has provided all documents relevant to the preparation of the report to the auditor;[29]

(b) report in writing to ~~a~~ the trustees, if the auditor forms the opinion in the course of or in connection with the performance of the audit of the SMSF, that:

(i) any contraventions of the SISA or SISR, may have occurred, may be occurring or may occur in relation to the SMSF (section 129 of the SISA); or

(ii) the financial position of the SMSF may be, or may be about to become, unsatisfactory (section 130 of the SISA); and

(c) report in writing to the ATO[30] using the approved form Auditor/actuary contravention report (ACR) and instructions (ACR instructions),[31] if the auditor forms the opinion in the course of or in connection with the performance of the audit of a SMSF, that:

(i) it is likely that a contravention, may have occurred, may be occurring or may occur, of the requirements of the SISA or SISR, specified by the ATO in the ACR, which meet the tests specified in the ACR instructions (section 129 of the SISA); or

(ii) the financial position of the SMSF may be, or may be about to become, unsatisfactory (section 130 of the SISA).

~~18.~~19. The auditor may also provide information in the ACR to the ATO about the SMSF or a trustee of the SMSF, if the auditor considers it will assist the ATO in performing its functions under the SISA and SISR (section 130A of the SISA).

~~19.~~20. The approved form auditor's report, issued by the ATO, is divided into two parts:

(a) *Part A*: *Financial report*, which requires the auditor to express an opinion on the financial report, based on the audit, conducted "in accordance with Australian Auditing Standards~~".~~".

(b) *Part B*: *Compliance report*, which requires the auditor to express an opinion on compliance with sections and regulations of the SISA and SISR specified in the approved form auditor's report based on the compliance engagement, conducted "in accordance with applicable Standards on Assurance Engagements".

---

[27] See *Competency Requirements for Auditors of Self-Managed Superannuation Funds* (February 2008) issued by Representatives of the Australian Accounting Profession, CPA Australia, ICAA and IPA (http://www.charteredaccountants.com.au/Industry%20Topics/Superannuation/SMSF - Auditor-requirements-and-competencies).

[28] See ~~Section~~ section 35C of the SISA.

[29] See ~~Regulation~~ regulation 8.03 of the SISR.

[30] While the SISA (sections 129 and 130) requires reporting as soon as practical after forming the opinion, it is the ATO's practice to require lodgement within 28 days of signing the audit report.

[31] *Auditor/actuary contravention report instructions* (NAT 11299) and ACR (NAT 11239), see: www.ato.gov.au/ Superfunds

In addition the approved form auditor's report requires the auditor to include a statement in the auditor's report that they have complied with the independence requirements prescribed by the SISR and the competency standards set by ASIC.[32]

Conduct the Financial Audit and Compliance Engagement in Accordance with ASQC 1

~~20.~~21. ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* establishes requirements and provides application and other explanatory material regarding the firm's responsibilities for its system of quality control for audits and reviews of financial reports and other financial information, and other assurance engagements.

Conduct the Financial Audit in Accordance with Auditing Standards

~~21.~~22. The auditor complies with all of the requirements in each of the Auditing Standards relevant to the financial audit in determining the audit procedures to be performed in conducting an audit in accordance with the Auditing Standards. The key Auditing Standards which are relevant to the conduct of the financial audit of a SMSF include, but are not limited to:

(a) ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* requires the auditor to comply with relevant ethical requirements, including those pertaining to independence.

(b) ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* requires the auditor to:

(i) comply with the relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements;

(ii) comply with all Australian Auditing Standards relevant to the audit;

(iii) plan and perform an audit of a financial report by exercising professional judgement;

(iv) plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated; and

(v) To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling 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.

(c) ASA 210 *Agreeing the Terms of Audit Engagements* requires the terms of the audit engagement to be agreed with ~~management or those charged with governance~~the fund trustee, in an audit engagement letter or other suitable form of written agreement. On recurring audits, the auditor assesses whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the ~~entity~~ fund trustee of the existing terms of the audit engagement. The auditor obtains the trustees~~'~~ acknowledgement that their responsibilities under SISA and the SISR include the preparation of financial statements and records, establishing and maintaining internal controls, particularly those preventing and detecting fraud and error, and providing the auditors with any information, explanations and assistance required for the audit.

(d) ASA 220 *Quality Control for an Audit of a Financial Report and Other Financial Information* requires the engagement partner to:

[32] ASIC class order CO 12/1687.

(i) remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team, throughout the audit engagement;

(ii) form a conclusion on compliance with the independence requirements that apply to the audit engagement;

(iii) be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and determine that conclusions reached in this regard are appropriate;

(iv) be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capability to perform the audit engagement;

(v) take responsibility for the direction, supervision and performance of the audit engagement; and

(vi) take responsibility for the auditor's report being appropriate in the circumstances.

(e) ASA 230 *Audit Documentation* requires preparation of documentation:

(i) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the Australian Auditing Standards and applicable legal and regulatory requirements;

(ii) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the results of the audit procedures performed, the audit evidence obtained, significant matters arising during the audit, the audit conclusion reached thereon and significant professional judgements made in reaching those conclusions; and

(iii) which is assembled in an audit file on a timely basis (ordinarily not more than 60 days) after the date of the auditor's report.

(f) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* requires the auditor to consider the risks of material misstatements in the financial report due to fraud.[33]

(g) 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 framework applicable to the entity, how the entity is complying with that framework, perform further audit procedures to help identify instances of non-compliance with those laws and regulations that may have a material effect on the financial report and obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. For example, non-compliance with requirements of the SISA, SISR or taxation legislation by an SMSF, such as ~~the failure to meet the definition of a SMSF~~early access of benefits or significant in-house assets issues, may expose the SMSF to additional tax liabilities which may impact materially on the SMSF's financial report.

(h) ASA 260 *Communication with Those Charged with Governance* requires the auditor to determine the appropriate person(s) within the entity's governance structure with

[33] Due to the few persons involved in the operation of an SMSF, there is ordinarily limited segregation of duties, which may impact on the auditor's assessment of fraud risk, as trustees, administrators or advisers may have an ability to override controls. SMSFs are not afforded the same level of protection 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.

whom to communicate, usually the trustees in the audit of an SMSF, and communicate with them the responsibilities of the auditor in relation to the financial report audit, an overview of the planned scope and timing of the audit, significant findings from the audit, and auditor independence on a timely basis.

(i) ASA 265 *Communication Deficiencies in Internal Control to Those Charged with Governance and Management* requires the auditor to communicate appropriately to those charged with governance and management, deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions. ~~This Auditing Standard may not be applicable for smaller audits~~Regardless of whether the auditor has relied on internal controls or not, deficiencies of internal controls identified during the audit may still need to be communicated with the trustees of the fund.

(j) ASA 300 *Planning an Audit of a Financial Report* requires the auditor to perform preliminary engagement activities, including evaluation of their own compliance with relevant ethical requirements including independence, to establish and document an overall audit strategy that sets the scope, timing and direction of the audit, that guides the development of the audit plan and plan the nature, timing and extent of direction and supervision of the engagement team members and review of their work.

(k) ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* requires the auditor to obtain an understanding of the entity (the SMSF) and its environment, including its internal controls to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion level.

(l) ASA 320 *Materiality in Planning and Performing an Audit* requires the auditor to determine materiality for the financial report as a whole when determining the overall audit strategy, and to determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

(m) ASA 330 *The Auditor's Responses to Assessed Risks* requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial report level and design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. Further audit procedures may comprise only substantive procedures or, when reliance is placed on the operating effectiveness of controls to reduce substantive testing, include tests of controls.

(n) ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation* requires the auditor to determine whether the service organisation's activities are of significance to the entity and relevant to the audit and, if so, the auditor is required to obtain a sufficient understanding of the entity and its environment to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risk. The auditor may need to obtain evidence of the operating effectiveness of the service organisation's controls and may use a report of a service organisation auditor to provide that evidence. In using the service auditor's report, the auditor considers the professional competence of the service auditor, the nature and content of the report, the scope of the work performed and whether the nature, timing and extent of the tests of controls and results that are relevant, provide sufficient appropriate audit evidence about the operating effectiveness of those controls to support the assessed risks of material misstatement. Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides further guidance to an auditor in obtaining sufficient appropriate audit evidence when the SMSF uses a third party service organisation for investment management services, including custody, asset management or ~~, property~~

~~management, superannuation member administration,~~ investment administration ~~or registry~~.

(o) ASA 450 *Evaluation of Misstatements Identified during the Audit* requires the auditor to determine whether the overall audit strategy and audit plan needs to be revised if the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or approaches materiality determined in accordance with ASA 320.

(p) ASA 500 *Audit Evidence* requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. It requires the auditor to consider the relevance and reliability of the information to be used as audit evidence.

(q) ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims* requires the auditor to design and perform audit procedures to identify litigation and claims which may give rise to a risk of material misstatement, and accounted for and disclosed in accordance with the applicable financial reporting framework. For an SMSF, material legal matters may include: the divorce of a member which may threaten the liquidity of the SMSF, an ATO investigation into the trustee or legal action commenced by the SMSF against the SMSF's administrators or investment managers, each of which may have a material effect on the financial report.

(r) ASA 505 *External Confirmations* requires the auditor to request external confirmations where they are necessary to obtain sufficient appropriate audit evidence.

(s) ASA 510 *Initial Audit Engagements – Opening Balances* requires the auditor to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report, whether the prior period closing balances have been correctly brought forward and that appropriate accounting policies are applied consistently.

(t) ASA 520 *Analytical Procedures* requires the auditor to design and perform analytical procedures to address the assessed risks of material misstatement near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial report is consistent with the auditor's understanding of the entity.

(u) ASA 530 *Audit Sampling* requires if sampling is used, the auditor, when designing the sample to consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn and to evaluate whether the results of the sample provide a reasonable basis for concluding on the population.

(v) ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures* requires the auditor to obtain sufficient appropriate audit evidence that accounting estimates, including fair value accounting estimates and disclosures are reasonable and are in accordance with the applicable financial reporting framework, which is chosen by the trustee in the case of an SMSF. The requirements and guidance in ASA 540 are particularly relevant to the audit of trustees' valuations, which are common in SMSF's. Regulation 8.02B of the SISR requires SMSF assets to be valued at market value, refer paragraph ~~165~~ 164 for further guidance.

(w) ASA 550 *Related Parties* requires the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence that all related party relationships and transactions have been identified, and have been appropriately recorded and disclosed[34] in the financial report.

(x) ASA 560 *Subsequent Events* requires the auditor to perform audit procedures designed to obtain sufficient 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.

(y) 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.

(z) ASA 580 *Written Representations* requires the auditor to request written representations from management that they are responsible for the preparation of the financial report in accordance with the applicable reporting framework, they have provided the auditor with all relevant information and access, and that all transactions have been recorded and reflected in the financial report. In the case of a SMSF, these representations are obtained from the trustees.

(aa) ASA 620 *Using the Work of an Auditor's Expert* requires the auditor, when using the work of an auditor's expert, to obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit and to evaluate the competence, capabilities and objectives of the auditor's expert.

(bb) ASA 700 *Forming an Opinion and Reporting on a Financial Report* requires the auditor to form an opinion on whether the financial report is prepared, in all material respects, in accordance with the applicable financial framework, and to express the auditor's report in writing.

(cc) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* requires the auditor to modify the auditor's report when it is not possible to issue an unmodified audit opinion. The circumstances may dictate that, due to a conflict, a significant uncertainty, a limitation of scope or a lack of sufficient appropriate audit evidence, that it is not possible to issue an unqualified audit opinion. In these circumstances, ASA 705 requires the auditor to issue either a qualified audit opinion, a disclaimer of opinion or an adverse opinion.

(dd) ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* contains the requirements of how the emphasis matter of paragraph is to be shown in the auditor's report.

(ee) ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* requires the auditor to determine whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.

(ff) ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* specifies the form of the auditor's report on special purpose financial reports, which for SMSFs is reflected in the approved form auditor's report issued by the ATO.[35] Auditor's reports for SMSF's are to include an Emphasis of Matter paragraph for periods commencing on or after 1 January 2010. This paragraph draws attention to the note of the financial report which describes the basis of accounting.

[34] Since the majority of SMSFs operate under the special purpose framework, they may elect not to comply with the disclosure requirements of AASB 124 *Related Party Disclosures*.

[35] In the rare circumstances where the SMSF is a reporting entity, the SMSF is required to prepare a general purpose financial report and the auditor refers to the requirements in ASA 700 *The Auditor's Report on a General Purpose Financial Report.*

Conduct the Compliance Engagement in Accordance with Applicable Standards on Assurance Engagements

~~22.~~23. ASAE 3100, which is to be read in conjunction with ASAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, is applicable to the conduct of the compliance engagement of SMSFs. ASAE 3100 requires the auditor to:

- Comply with applicable Standards on Assurance Engagements.
- Comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
- Implement quality control procedures.
- Meet acceptance and continuance procedures.
- Agree the terms of the engagement in writing.
- Plan the compliance engagement so that it will be performed effectively.
- Consider materiality and compliance engagement risk[36] when planning and performing the compliance engagement.
- Reduce compliance engagement risk to an acceptable level in the circumstances of the compliance engagement.
- Obtain sufficient appropriate evidence on which to base the conclusion and evaluate the impact on the conclusion of any compliance breaches noted.
- Consider the effect of events up to the date of the compliance report.
- Prepare, on a timely basis, documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and evidence that the engagement was performed in accordance with ASAE 3000 and ASAE 3100.
- Express a conclusion about the subject matter information, which for an SMSF is compliance in all material respects with the SISA and SISR requirements specified in the approved form auditor's report.

~~23.~~24. Since ASAE 3100 is read in conjunction with ASAE 3000, where specific guidance is contained in ASAE 3000 and only referenced in ASAE 3100, this guidance statement makes direct reference to ASAE 3000. Although Auditing Standards do not apply to compliance engagements, they may nevertheless provide helpful guidance in the conduct of a compliance engagement.

~~24.~~25. ASAE 3402, *Assurance Reports on Controls at a Service Organisation*, ~~is applicable to the conduct of the compliance engagement of SMSFs~~provides for reports on controls which, if available from a service organisation used by a SMSF may be relevant to the conduct of the financial audit of that SMSF. ASAE 3402 deals with assurance engagements undertaken by an auditor to provide a report for use by user entities and their auditors, on the controls at a service organisation that provides a service to user entities that is likely to be relevant to user entities' internal controls as they relate to financial reporting. It complements ASA 402, in that reports prepared in accordance with this standard are capable of providing appropriate evidence under ASA 402.

[36] Compliance engagement risk is defined in ASAE 3100, paragraph 11 as: the risk that the assurance practitioner expresses an inappropriate conclusion when the entity (SMSF) is materially non-compliant with the requirements as measured by the suitable criteria (SISA sections and SISR regulations as specified in the ATO approved form auditor's report).

Preliminary Engagement Activities

~~25.~~26. 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.

These procedures are outlined below.

Acceptance and Continuance Procedures

~~26.~~27. Under the Auditing Standards 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.

~~27.~~28. 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~~ seeks permission from the trustees[37] to communicate with the previous auditor.

Ethical Requirements

~~28.~~29. In accordance with ASA 102, ASA 200 and ASAE 3000, the auditor is required to comply with relevant ethical requirements relating to audit engagements, which include the applicable code of ethics of a professional accounting body (the Code of Ethics).[38] The fundamental principles of professional ethics comprise:

(a) integrity;

(b) objectivity;

(c) professional competence and due care;

(d) confidentiality; and

(e) professional behaviour.

The concept of independence is fundamental to compliance with the principles of integrity and objectivity and is mandatory[39] for auditors undertaking the audit of a SMSF.

~~29.~~30. Under ASA 220 and ASAE 3100, the auditor accepts an engagement only when the auditor is satisfied that they, and the engagement team if applicable, have met the relevant ethical requirements.

~~30.~~31. The auditor ensures that they possess, or if applicable the engagement team conducting the audit collectively possess, the appropriate capabilities, competence and time to conduct the

[37] See GS 011 *Third Party Access to Audit Working Papers*, paragraph 49.

[38] In Australia, the applicable code of 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 Ethics has been adopted by CPA Australia, IPA and ICAA and is applicable to their members. Members of the ATMA are also required to conform with this code under the ATMA by-laws. Fellows of the NTAA who obtained fellowship by virtue of holding a practising certificate from one of the professional accounting bodies, will be members of one of those bodies and consequently are also required to comply with the Code of Ethics.

[39] See ~~Regulation~~ regulation 9A.06 of the SISR.

audit in accordance with the Auditing Standards, applicable Standards on Assurance Engagements and legislative requirements. Capabilities and competence are developed through a variety of means, including professional education, training, practical experience, coaching and mentoring by more experienced staff. Under the SISA[40] the auditor is required to comply with competency standards set out by ASIC.[41] In addition, meeting the applicable competency requirements of their professional bodies will assist SMSF auditors to maintain the competence, knowledge, skills and capabilities necessary to perform SMSF audits satisfactorily.

~~31.~~32. Under ASA 250, the auditor obtains a general understanding of the legal and regulatory environment applicable to the SMSF. A sound and current knowledge of superannuation legislation, including the SISA and SISR, relevant taxation legislation and ATO Rulings and Determinations, is necessary for the auditor to meet this requirement.

Independence

~~32.~~33. ASA 220 requires the engagement partner to form a conclusion on compliance with the independence requirements applying to the audit engagement which are contained in the Code of Ethics. ASAE 3100 requires compliance with the fundamental ethical principles on compliance engagements, for which the concept of independence is integral. The SISA[42] and the SISR[43] requires the auditor to comply with the auditor independence requirements prescribed by the APES 110 *Code of Ethics for Professional Accountants*.[44]

~~33.~~34. Overall, independence requires 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.

~~34.~~35. The Code of Ethics provides a framework of principles that auditors and members of audit teams use to ensure that independence of mind and independence in appearance are not compromised.

~~35.~~36. When assessing independence the auditor:

(a) identifies any threats to independence;

(b) evaluates the significance of the threats; and

(c) if the threats are other than clearly insignificant, identifies and applies safeguards to eliminate or reduce the threats to an acceptable level.

~~36.~~37. The threats to independence in a SMSF audit engagement may include:

- Self-interest threat, which occurs 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, member of the audit team or their immediate family member is a trustee or member of the SMSF~~ or the SMSF is the sole~~

[40] See ~~Subsection~~ subsection 128Q of the SISA.
[41] See ASIC Class Order CO 12/1687.
[42] See ~~Subsection~~ subsection 128F (d) of the SISA.
[43] See ~~Regulation~~ regulation 9A.06 of the SISR.
[44] In addition, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide* Fourth Edition, February 2013.

~~client or a significant client of the firm~~. This threat will also occur if the auditor or the audit firm relies on a single SMSF audit referral source for a significant amount of revenue.

- Self-review threat, which occurs 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 a member of the audit team prepared the SMSF's financial report or accounting records.

- Advocacy threat, which occurs 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 acts as an advocate for the SMSF in litigation or a dispute.

- Familiarity threat, which 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 or member of the SMSF or an employee of the SMSF's administrator or where the auditor has a long association with a trustee.

- Intimidation threat, which is when a member of the audit 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 or their advisors or the accountant of the trustee. This may also occur where an auditor is subject to intimidation by a colleague in their own firm who has a vested interest in retaining the SMSF client because they are the SMSF's accountant or financial adviser. For example, a threat of replacement over a disagreement with the application of an accounting principle or the loss of other general accounting or tax work or the loss of employment if the auditor's opinion is modified or an ACR is submitted to the ATO. An intimidation threat may also arise where a SMSF administrator pressures the auditor to reduce inappropriately the extent of work performed in order to reduce fees in circumstances where the administrator refers a significant number of SMSF audit clients.

~~37.~~38. Safeguards to independence may be:

(a) created by the profession, legislation or regulation;

(b) within the SMSF; or

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

~~38.~~39. 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.

~~39.~~40. Safeguards within the SMSF may be limited, as by its very nature, a SMSF is a small entity with limited scope for segregation of duties. Hence reliance on internal safeguards may not be possible and the auditor ordinarily relies on the safeguards created by the profession, legislation and regulation and those safeguards created by internal systems within the auditor's firm to enhance independence.

~~40.~~41. In evaluating threats to independence and considering applicable safeguards, the auditor considers the nature of the SMSF, the range of services provided to the audit client 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.

~~41.~~42. Assisting an audit client in the preparation of accounting records or financial reports may create a self-review threat when those records and reports are subsequently audited by the same firm. If the firm's staff also make management decisions for the SMSF, which may occur if the firm is providing administrative services to the SMSF, there are no safeguards available to reduce the self-review threat to an acceptably low level, other than withdrawal from either the administration or the audit engagement.

~~42.~~43. If, however, the accounting services provided are of a routine or mechanical nature, such as posting transactions and entries approved by the SMSF or preparing the financial report based on a trial balance provided by the SMSF, the self-review threat may be reduced to an acceptably low level by applying safeguards, including:

- Making arrangements so accounting services are not performed by a member of the audit team.
- Eliminating intimidation threats by ensuring clear guidelines protect the auditor from undue influence by others in the firm.
- Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the SMSF.
- Requiring the source data for the accounting entries to be originated by the SMSF.
- Requiring the underlying assumptions to be originated and approved by the SMSF.
- Obtaining the SMSF's approval for any proposed journal entries or other changes affecting the financial report.
- Obtaining the SMSF's acknowledgement of their responsibility for the accounting work performed by the firm.
- Disclosing to the trustees the firm's involvement in both engagements.

~~43.~~44. Provision of taxation services to a SMSF which is also an audit client would not of itself~~generally~~ create a threat to independence that could not be mitigated by safeguards.

~~44.~~45. Provision of financial advice to a SMSF which is also an audit client may create advocacy and self-review threats. These threats may be reduced to an acceptably low level by safeguards such as:

- Implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF.
- Using staff and partners who are not members of the audit team to provide the financial advice.
- Eliminating intimidation threats by ensuring clear guidelines protect the auditor from undue influence by others in the firm.
- Ensuring that the individual providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.

~~45.~~46. Where the audit firm or individual partner is unduly reliant on the audit fees from a particular ~~SMSF or~~ group of SMSFs, such as those SMSFs referred by a single referral source, the concern about the possibility of losing the referrals may create a self-interest, advocacy or intimidation threat. Safeguards include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed. In addition, the audit firm establishes policies and procedures around engagement quality reviews[45]. These policies may include ~~or~~ contracting of suitably qualified external persons ~~obtaining an external quality review~~or other firms[46].

~~46.~~47. Safeguards that the auditor may apply to manage other identified self-interest, advocacy, familiarity or intimidation threats to independence may include:

- Prohibiting the holding of direct, or material indirect, financial interests by the auditor in closely held investments of the SMSF, such as a joint venture or property syndicate.
- Removal from the SMSF audit team of any personnel with a close relationship with the trustees of the SMSF, including relatives of the trustees.

~~47.~~48. In situations in which 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.

~~48.~~49. Appendix ~~6~~ 5 of this Guidance Statement provides a number of practical examples of SMSF audit engagements and the threats to independence posed by those engagements, as well as some appropriate safeguards which may address those threats.

Professional Judgement and Scepticism

~~49.~~50. ASA 200 requires the auditor to plan and perform an audit exercising professional judgement, and with an attitude of professional scepticism.

- Professional judgement 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.
- In exercising professional judgement, with an attitude of professional scepticism, auditors independently evaluate the quality of audit evidence collated throughout the course of the engagement.

Quality Control

~~50.~~51. Under ASA 220 and ASAE 3100, the engagement partner implements procedures to ensure quality control systems are applied to both the financial audit and compliance engagement including:

- Taking responsibility for overall quality on the financial audit and compliance engagement.
- Considering whether members of the engagement team have complied with relevant ethical requirements.
- Forming a conclusion on compliance with relevant independence requirements.

[45] See ASQC 1, paragraph 35.
[46] See ASQC 1, paragraph A50.

- Ensuring that requirements in relation to acceptance and continuance of client relationships and specific audit engagements have been followed and that conclusions reached are objective, appropriate and have been adequately documented.
- Assigning audit engagement teams which possess collectively the appropriate capabilities, competence and time to perform the engagements in accordance with AUASB Standards and regulatory and legal requirements.
- Directing, supervising and performing the audit engagement in accordance with AUASB Standards and regulatory and legal requirements.
- Issuing an auditor's report that is appropriate in the circumstances and supported by sufficient appropriate audit evidence.
- Consulting appropriately on difficult or contentious matters both within the engagement team and with others within or outside the firm, and documenting and implementing agreed conclusions.
- Monitoring quality adequately against firm and professional standards, including the Auditing Standards and Standards on Assurance Engagements.

Agree the Terms of Engagement

~~51.~~52. Under ASA 210, the auditor is required to agree the terms of the audit engagement in writing with the SMSF trustees prior to conducting the audit. This is usually in the form of an engagement letter to the trustees. ASA 210 provides guidance on the principal contents of an engagement letter.

~~52.~~53. The trustees are required to appoint the auditor at least 45 days prior to the date that the SMSF annual return is due to be lodged.[47] Either the trustees 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 either case, the trustees approve the appointment in writing before the audit commences, usually by signing the engagement letter and indicating their approval in a trustee minute. The engagement letter is between the auditor and the trustees of the SMSF and not the auditor and the party referring the engagement such as the accountant or administrator.

~~53.~~54. For a SMSF audit engagement, the engagement letter ordinarily:

- Describes the objective and scope of the financial audit and compliance engagement, including the sections and regulations of SISA and SISR against which the auditor will be reporting.
- Identifies the responsibilities of the auditor.
- Identifies the responsibilities of the trustees, including:
    - Establishing and maintaining an adequate internal control structure.
    - Preparing the SMSF's financial report.
    - Keeping the records of the SMSF secure and for the statutory time periods.
    - Conducting the affairs of the SMSF in compliance with all relevant provisions of SISA, SISR and the fund's governing rules throughout the year.

[47] Requirement under regulation 8.02A of the SISR for appointments after 1 July 2013. ~~If the auditor is appointed less than 45 days before the SMSF annual return is due to be lodged, then the auditor may report the contravention to the trustee under section 129 or decline the engagement.~~

- Sets out the reporting requirements of the auditor, including those imposed by sections 129 and 130 of the SISA.
- Includes a notice to the trustees that the audit records and auditor's work may be subject to review by the professional body of which the auditor is a member, ASIC or the ATO.

~~54.~~55. ASA 210 does not require engagement letters to be issued every year. 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 SISA, SISR or other regulatory requirements, such as changes to the requirements to be reported on in the approved form auditor's report or ACR.

~~55.~~56. An example engagement letter is attached as Appendix 1 of this Guidance Statement.

Planning

~~56.~~57. Planning an audit involves a number of closely related procedures which include:

- Establishing the overall audit strategy for the audit.
- Developing and documenting an audit plan in order to reduce audit risk and compliance engagement risk to an acceptably low level.
- Updating the audit strategy and the audit plan during the course of the audit.
- Planning the nature, timing and extent of direction and supervision of engagement team members and review of their work.

~~57.~~58. The auditor plans the financial audit and compliance engagement so that they may be conducted in an effective manner in order to reduce audit risk and compliance engagement risk to an acceptably low level.

~~58.~~59. Adequate planning ~~may~~:

- Ensures appropriate attention to important areas of the audit engagement.
- ~~Identify~~ Identifies potential problems on a timely basis.
- Assists in the proper organisation and management of the audit engagement in order for it to be performed in an effective manner.
- Assists the auditor in assigning work properly to audit team members, and facilitates the direction, supervision and review of the team's work.
- Assists, where applicable, in the coordination of work performed by other auditors, actuaries and experts.

~~59.~~60. The nature, timing and extent of planning activities will vary according to:

- The size, structure and complexity of the SMSF.

- Whether the SMSF contravened the SISA or SISR in prior years.
- Whether the SMSF is ~~a defined benefit or~~an accumulation fund or a pension fund or a combination of both.
- The level of trustee involvement and knowledge of the operations of the SMSF.
- Whether the SMSF is self-administered or administered by a third party service organisation.
- The nature and range of investments held and whether the SMSF uses the services of an advisor for investment advice.
- The availability of service auditor's reports for services provided by service organisations.
- Whether the employer-sponsor is also a client of the firm preparing the accounts or of the auditor.
- The auditor's previous experience, if any, with the SMSF.
- ~~The due date for lodgement of the SMSF's Annual Return to the ATO.~~

~~60.~~61. An a~~A~~nnual review of the audit plan is necessary to ensure that it is updated to reflect the current circumstances of the SMSF and any changes in legislation that may affect the SMSF.

Overall Audit Strategy

~~61.~~62. Under ASA 300, the auditor is required to establish the overall audit strategy for the financial audit and this is mirrored in the guidance in ASAE 3100 for the compliance engagement. The overall audit strategy sets the scope, emphasis, timing, direction and conduct of the audit, 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.

~~62.~~63. The complexity of the audit strategy will vary with the size, nature and complexity of the SMSF.[48] The strategy guides the development of the more detailed audit plan for the nature, timing and extent of evidence gathering procedures to be performed and the reasons for selecting them.

~~63.~~64. In conducting a SMSF audit, the auditor obtains a preliminary understanding of the SMSF, including the SMSF's trust structure, nature of its investments and administration, the parties involved in the management and trusteeship of the SMSF and related parties of the trustees and members.

~~64.~~65. In gaining this preliminary understanding of the SMSF, the auditor reviews the fund's current ~~fund's~~ governing rules to verify whether:

(a) The fund's governing rules were properly executed.

(b) The SMSF has current and appropriately empowered trustees.

(c) The SMSF was established with either a corporate trustee or individual trustees under the pension powers.

(d) The fund's governing rules complies with or has a mechanism to comply with the SISA and SISR and changes thereto.

[48] ASA 300 provides guidance on establishing the audit strategy for smaller entities.

(e) The powers to accept contributions and pay benefits, in the form permitted by the SISA and SISR, are included.

The covenants in subsection 52B(2)[49] and 52C(2) of the SISA are deemed to be included in the governing rules, even if they are not specifically included. A list of considerations in examining the SMSF's governing rules is included in Appendix ~~4~~ 3 *Self-Managed Superannuation Fund Governing Rules Audit Planning Checklist*.

~~65.~~66. It is possible for the fund's governing rules to be more restrictive than the SISA and SISR and prohibit or limit the trustees' actions or powers. However, even if the fund's governing rules are more expansive than the SISA and SISR, the trustees must ensure they still comply with the requirements of the SISA and SISR.

The Audit Plan

~~66.~~67. 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. 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 at the assertion level and evidences work performed to facilitate proper review, supervision of the audit team and any external quality review.

~~67.~~68. 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 revision of the initial risk assessment and a need for further audit procedures, which is documented accordingly.

~~68.~~69. Often, the audit plan for a SMSF takes the form of a ~~checklist~~ template which assists in maintaining quality control for the engagement as required by ASA 220. However, standardised ~~checklists~~ templates need to be tailored specifically to reflect the requirements of the SISA and SISR, the particular circumstances and nature of the SMSF and the audit evidence available.

~~69.~~70. The audit plan encompasses financial audit procedures, such as the illustrative financial audit procedures listed in Appendix ~~5~~ 4 of this Guidance Statement, as well as compliance procedures.[50]

Risk Assessment Procedures

~~70.~~71. The auditor obtains a sufficient understanding of the SMSF and its environment, including its internal control, to identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, and the risk of non-compliance with the specified requirements of the SISA and SISR, in order to design and perform further audit procedures. The risk assessment for the financial audit includes identifying and assessing risks at the financial report level and at the assertion level for classes of transactions, account balances and disclosures, as required by ASA 330.

~~71.~~72. Under ASA 315, the auditor is required to examine the internal controls of the SMSF and document the auditor's understanding of the control environment. 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. Given the nature of a SMSF, it is reasonable that there are limited reliable internal controls for the auditor to rely on. Even if the auditor considers that a fully substantive audit approach is appropriate, the auditor is still expected to document their consideration of the internal control environment and the basis for their decision not to rely on controls.

~~49 After 1 July 2013, covenants contained in subsections 52B(2) and 52C(2) of the SISA.~~

50 Auditor guidance and information is available on the ATO website at https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors including ~~Illustrative compliance questions are available as guidance for the SMSF auditor, in the *Guide for SMSF auditors – Approved auditors of self-managed super funds – role and responsibilities* (NAT 11375) issued by the ATO, which is available at www.ato.gov.au/Superfunds. In addition,~~ the ATO's electronic SMSF audit tool (eSAT), for use in conducting the compliance engagement~~, is available on the ATO website~~.

~~72.~~73. Under ASA 250, the auditor is required to consider whether the SMSF has breached the SISA or SISR previously and whether there is any outstanding correspondence or unresolved issues with the ATO. Any such matters identified will impact on the risk assessment and the auditor's assessment of the compliance framework.

~~73.~~74. SMSFs are ~~often~~ small entities, with a close and related membership where all trustees and directors of the corporate trustee are equally responsible for managing the fund and making decisions~~control is vested in a few individuals~~. There ~~may~~ would be little or no opportunity for implementing ~~proper~~ segregation of duties ~~in these circumstances~~between trustees. Consequently, the auditor may assess the SMSF's internal 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 design and perform further audit procedures which are primarily or entirely substantive procedures. If the administration of the SMSF is outsourced, the auditor looks at the controls prevailing at the administrator.

Materiality

~~74.~~75. ASA 320 requires the auditor to consider performance materiality[51] when determining the nature, timing and extent of financial audit procedures and ASA 450 requires the auditor to consider materiality when evaluating the effect of misstatements identified during the audit. Similarly, under ASAE 3100, the auditor considers materiality when planning and performing the compliance engagement and in assessing any compliance breaches identified. Information is material if its omission, misstatement or non-disclosure has the potential to adversely affect decisions made by users of the report. 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.

~~75.~~76. The auditor's preliminary assessment of materiality is based largely on quantitative factors, whereas when assessing the outcome of audit procedures, including the materiality of misstatements identified in the financial audit or contraventions identified in the compliance engagement, the auditor considers both their amount (quantitative) and nature (qualitative).

~~76.~~77. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within both Part A (paragraphs ~~143~~ 141 to ~~146~~144) and Part B (paragraph ~~276~~268 to 269) respectively of this Guidance Statement.

Audit Evidence

~~77.~~78. The results of the risk assessment procedures enable the auditor to design and perform further audit procedures to respond to the assessed risks for the compliance engagement and financial audit. The auditor determines the nature, timing and extent of audit procedures to be performed, which may be either tests of controls or substantive procedures.

~~78.~~79. ASA 500 and ASAE 3100 require the auditor in the conduct of the financial audit and compliance engagement to obtain sufficient appropriate audit evidence on which to base the auditor's opinion. Sufficiency is the measure of the quantity of evidence, which is affected by the risk of misstatement, the higher the risk the more evidence is likely to be required. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability, the higher the quality the less evidence may be required. The auditor 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

[51] Performance materiality refers to the amount or amounts set by the auditor at less than materiality for the financial report as a whole to reduce to an appropriate low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial report as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

and quality of evidence, and thus its sufficiency and appropriateness, to support the audit opinion.

~~79.~~80. 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~~,~~ and correspondence~~, emails, Annual Returns, deposit books and cheque butts~~, which may be in paper or electronic form. Audit evidence, which is cumulative in nature, includes evidence obtained from audit procedures performed during the course of the audit and may include evidence obtained from previous audits and other sources.

~~80.~~81. Audit evidence is generally more reliable when:

- Obtained from an independent source.
- ~~Controls are operating effectively.~~
- Obtained directly by the auditor.
- In documentary form.
- It comprises of original documents.
- Evidence received directly by the auditor is substantially more reliable than evidence that has passed through other parties especially considering the limited segregation of duties and internal controls that is usually found in a SMSF.
- Controls are operating effectively.

~~81.~~82. 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, ASA 500 and ASAE 3000 require the auditor to consider the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitised or other electronic documents which are easily altered, including consideration of controls over their preparation and maintenance where relevant. The auditor remains aware of the potential for fraud in the presentation of audit evidence. If an auditor is aware, or suspects, that any documentation has been altered or differs from expected results, then further audit procedures are applied.

~~82.~~83. In determining whether or not to rely on electronically generated or stored audit evidence, the auditor exercises professional judgement in considering the reliability of that evidence. The auditor considers the requirements of the Auditing Standards particularly ASA 200, ASA 315 and ASA 500, and may consider the guidance contained in paragraphs ~~77~~ 78 to ~~81~~ 82 above.

~~83.~~84. 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.
- Reperformance.

- Analytical review.

~~84.~~85. 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~~would ordinarily rely 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 level of risk and other ~~means~~ audit procedures do not provide sufficient appropriate audit evidence.

Inspection of Records or Documents

~~85.~~86. 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 nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.

~~86.~~87. 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 and further audit evidence would be sought. 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

~~87.~~88. 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

~~88.~~89. Observation consists of watching 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

~~89.~~90. Enquiry consists of seeking financial or non-financial information from knowledgeable persons, either within 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.

~~90.~~91. 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 the responses received to enquiries to assess whether there is a need to modify or perform additional audit procedures to support the audit opinion.

~~91.~~92. Enquiry alone ordinarily does not provide sufficient audit evidence to detect a material misstatement at the assertion level, nor sufficient evidence of the operating effectiveness of controls, therefore the auditor performs further audit procedures to obtain sufficient appropriate audit evidence.

~~92.~~93. The auditor obtains written representations from the trustees ~~or management~~ to confirm responses to oral enquiries on material matters when other sufficient appropriate audit evidence cannot reasonably be expected to exist or when the other audit evidence obtained is of a lower quality.[52]

Confirmation

~~93.~~94. Confirmation, which is a specific type of enquiry, is the process of obtaining a representation of an existing condition or information 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.[53]

Recalculation

~~94.~~95. Recalculation consists of checking the mathematical accuracy of documents, records or account balances. Recalculation may be performed electronically, for example through the use of ~~through the use of~~ computer assisted audit techniques (CAATs) to check the accuracy of the summarisation of the electronic accounts, or manually, for example to recalculate account balances from primary documentation to validate the balance.

Reperformance

~~95.~~96. Reperformance is the auditor's independent execution of procedures and controls that were originally performed as part of the SMSF's operations, for example reperforming the calculation of market movement for a range of listed securities. Reperformance may be conducted either manually or through the use of CAATs.

Analytical Procedures

~~96.~~97. Under ASA 520, the auditor is required to apply 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.

~~97.~~98. Analytical review procedures may 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. Major variations, inconsistencies or other deviations may warrant further investigation particularly where the difference is not easily understood, not explained sufficiently by the trustees or deviates from predicted amounts.

~~98.~~99. 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 benefit payments or expenses such as fees, charges or insurance premiums deducted. The auditor uses analytical review to assess whether the member balances are reasonable given the overall circumstances of the SMSF.

Audit Documentation

~~99.~~100. 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 Auditing Standards, applicable Standards on Assurance Engagements and applicable legal and regulatory requirements.

~~100.~~101. Preparing sufficient 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

[52] See ASA 580 for further requirements and explanatory guidance on written representations.
[53] See ASA 505 for further requirements and explanatory guidance on confirmations.

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.

~~101.~~102. 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 Auditing Standards, applicable Standards on Assurance Engagements 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.

~~102.~~103. 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.

Nature of Documentation

~~103.~~104. Audit documentation may be recorded on paper, electronically or on other media. It includes, for example, audit programs, analyses, records of audit testing and results of that testing, 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. Checklists and audit work programs without supporting audit evidence is not considered to be appropriate audit evidence.~~Audit documentation, however, is not a substitute for the SMSF's accounting records.~~

~~104.~~105. Oral explanations ~~by~~ to 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. It is essential for the auditor to collate and retain an audit file containing the audit documentation. Even though SMSF audits are not conducted under the *Corporations Act* 2001, the retention period for audit working papers is generally accepted to be at least seven years[54] after the date the audit report is signed.

[54] See section 307B of the *Corporations Act 2001*.

~~105.~~106. 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.

~~106.~~107. The auditor 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 able to be performed more quickly and efficiently if a file is constructed in an orderly and logical manner.

~~107.~~108. Under ASA 230, the auditor is required to adopt appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation.

Significant Matters

~~108.~~109. 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. In addition, ASIC's competency standards[55] require the auditor to prepare a summary of findings relating to both compliance matters and matters relating to the financial report for each SMSF audit.

~~109.~~110. Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:

- Matters that give rise to significant risks (as defined in ASA 315).
- Results of audit procedures indicating that the financial information could be materially misstated; or a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- Findings that could result in a modification to the auditor's report.

~~110.~~111. If the auditor identifies information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor documents how the contradiction or inconsistency has been addressed in forming the auditor's final opinion.

Representations

112. Under ASA 580 and ASAE 3100, the auditor seeks written representations from the trustees regarding financial and compliance matters. These written representations are generally in the form of a representation letter which may confirm both verbal representations made during the course of the audit as well as other matters requiring written confirmation.

~~111.~~113. In instances where the auditor's contact with the trustees is limited and may only be at the conclusion of the engagement, the auditor considers obtaining certain representations from the trustees at the planning stage of the engagement. For example representations over eligibility of trustees, safe-guarding of assets and fraud.

~~112.~~114. With respect to the financial audit of a SMSF, under ASA 580, the auditor obtains written representations from the trustees, including that they:

[55] See ASIC Class Order 12/1687 paragraph 48.

- Acknowledge responsibility for the fair presentation of the financial report in accordance with the adopted applicable financial reporting framework.
- Have approved the financial report.
- Confirm specified matters material to the financial report, when other sufficient appropriate audit evidence 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~~ is immaterial, both individually and in aggregate, to the financial report.

~~113.~~115. The auditor may also seek representations under ASAE 3100, with respect to the compliance engagement, that the trustees:

- Confirm specified matters material to the compliance engagement.
- Have conducted the affairs of the SMSF in compliance with the SISA, ~~and~~ SISR and other relevant legislation throughout the period.

~~114.~~116. Upon receipt of a written representation, the auditor evaluates the representation for reasonableness against other audit evidence collected and the knowledge of the individual making the representation and, where possible, obtains corroborative evidence.

~~115.~~117. Representations by the trustees cannot replace other evidence the auditor could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the financial report or evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the audit, even if a representation from the responsible party has been received on the matter. In such circumstances, ASA 705 and ASAE 3100 require the auditor to express a qualified opinion or a disclaimer of opinion.

~~116.~~118. An example Trustee Representation Letter which covers both the financial audit and compliance engagement is included as Appendix 2 of this Guidance Statement.

Service Organisations

~~117.~~119. SMSFs may use service organisations to provide services such as investment management services including:

- Custody (including investor directed portfolio services (IDPS) such as WRAP accounts).
- Asset management (including Hedge fund management and Private Equity).
- Property management.
- ~~Superannuation member administration.~~
- Investment administration, including fund accounting and/or fund administration.
- Registry.
- Valuation services

These management services may take various forms including WRAP[56] accounts, individually managed portfolio services, individual mandates or platform investments. Further guidance is provided in GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.

~~118.~~120. The use of a service organisation by a SMSF may render the audit evidence required less readily accessible to the auditor if the service organisation provides some of the record keeping or compliance functions of the SMSF.

~~119.~~121. Nevertheless, location of audit evidence at the service organisation does not alter the overall scope and objective of the financial audit and compliance engagement of the SMSF. Therefore, it remains the responsibility of the auditor to obtain sufficient appropriate audit evidence to support the auditor's financial audit and compliance assurance opinions. The requirements of the AUASB Standards relating to obtaining sufficient appropriate evidence on which to form an opinion are the same as would apply if the records and supporting documentation were maintained by the SMSF.

~~120.~~122. 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, if reliance can be placed on the service organisation's controls. ASA 402 establishes requirements and provides guidance regarding the use of controls reports from service organisations as evidence for a financial audit where a report is prepared by the service organisation under ASAE 3402 (including GS 007). ASIC Class Orders *Investor Directed Portfolio Services Provided Though a Registered Managed Investment Scheme* (CO 13/762) and *Investor Directed Portfolio Services* (CO 13/763) provide further guidance where the services provided to the SMSF are investor directed portfolio services. In addition, GS 007 provides further guidance where the services provided to the SMSF are investment management services. Controls reports prepared under ASAE 3402 including GS 007 reports, or CO 13/763, CO 13/762, ~~-~~are not intended to provide any assurance with respect to controls over compliance with SISA or SISR and consequently those reports may not contain any evidence of the operating effectiveness of controls over compliance. ~~Nevertheless, where controls over compliance with the requirements of SISA and SISR relevant to the SMSF are included in the controls report prepared by a service organisation, then it may provide the auditor with the opportunity to reduce substantive testing over compliance matters maintained by the service organisation~~Where a custodian is engaged by the fund, the auditor performs additional procedures to confirm that the fund has complied with the relevant SIS requirements.

~~121.~~123. Operators of IDPSs[57] and IDPS-like services are required by CO 13/763[58] or CO 13/762[59] to obtain an auditor's report providing:

(a) an opinion as to whether the internal controls and other procedures of the relevant IDPS or IDPS-like operator and other persons acting on behalf of the relevant operator were suitably designed and operated effectively in all material respects to ensure that the annual investor statements, quarterly reports and any information that is made accessible electronically, are not materially misstated; and

(b) an opinion as to whether the aggregate of assets, liabilities, revenue and expenses in the annual investor statement for the relevant IDPS or IDPS-like financial year have

[56] A "WRAP" or "Wrap Service" is an administrative and reporting service whereby investments are consolidated, managed and held by a custodian. WRAPS combine reporting on investments including bank accounts, listed securities, corporate actions and managed funds which are held within the portfolio.

[57] "IDPS" means an investor directed portfolio service, consisting of a number of functions including a custody, settlement and reporting system and service. The clients of the service have the sole discretion to decide what assets will be acquired or disposed of. The service is provided in such a way that clients are led to expect, and are likely to receive, benefits in the form of access to investments that the client could not otherwise access directly or cost reductions by using assets contributed by the client or derived directly or indirectly from assets contributed by the client with assets contributed by other clients or derived directly or indirectly from assets contributed by other clients.

[58] See ASIC Class Order 13/763 *Investor Directed Portfolio Services*.

[59] See ASIC Class Order 13/762 *Investor Directed Portfolio-like Services provided through a registered managed investment Scheme*.

been properly reconciled in all material respects to the corresponding amounts shown in the reports prepared by the custodian which have been independently audited; and

(c) a statement as to whether or not the auditor has any reason to believe that any annual investor statements, quarterly reports or information accessible electronically is materially misstated.

~~122.~~ Reports provided under these class orders may provide sufficient appropriate audit evidence for a user auditor. If additional evidence is required by the user auditor, a service auditor's report on controls or on financial information may be requested. ~~IDPS or IDPS-like services generally include custody and investment administration, consequently, if a type 1 or 2 report is provided the user auditor can reasonably expect the operator (service organisation) and service auditor of an IDPS to report on the control objectives for the relevant services provided in this guidance statement.~~

Using the Work of a Service Auditor

~~123.~~124. In relying on the work of a service organisation's auditor under ASA 402, the auditor considers the professional competence of the service auditor in the context of the specific assignment and assesses whether the work of the service auditor is adequate for the SMSF auditor's purposes.

~~124.~~125. In assessing professional competence of the service auditor, the auditor may gain some comfort from the other auditor having membership of a professional accounting body or affiliation with a reputable accounting firm.

~~125.~~126. With respect to the appropriateness of the service auditor's work, the auditor needs to consider whether:

(a) controls, balances, transactions or compliance with requirements relevant to the SMSF have been audited;

~~(b) the materiality level applied is appropriate to the SMSF's audit;~~

~~(c)~~(b) an audit opinion, providing reasonable assurance, or a review conclusion, providing limited assurance, has been provided; and

~~(d)~~(c) the service auditor's report contains any modifications which may impact the audit of the SMSF.

Using the Work of an Expert

~~126.~~127. Some SMSF audit engagements may include aspects requiring specialised knowledge and skills in the collection and evaluation of sufficient appropriate audit evidence. In these situations, the auditor may decide to use the work of an expert who has the required knowledge and skills to assist the auditor, such as property valuers, actuaries, legal professionals or other professionals. Either the auditor or the trustee may engage the required expert. ASA 620 applies for an auditor's expert, while GS 005 *Using the Work of a Management's Expert* provides guidance on using the work of a management's expert (an expert engaged by, or on behalf of, the trustees).

~~127.~~128. When using the work of a management's expert, ASA 500 paragraph 8 and ASAE 3100 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:

(a) the competence, capabilities and objectivity of the expert;

(b) whether the scope of the expert's work is adequate for the purposes of the audit, including the reasonableness of the assumptions, method and source data used by the expert; and

(c) the appropriateness of the expert's work as audit evidence, including the reasonableness and significance of the expert's findings in relation to the audit of the SMSF.

Using the Work of ~~an Actuary~~a Management's Expert

~~128.~~129. Actuaries are experts generally appointed by the trustees (a management's expert) to provide actuarial valuations and certificates required by the SISA, SISR or the ITAA. The auditor applies the requirements of ASA 500 paragraph 8 and ASAE 3100 and refers to Guidance Statement GS 005 for guidance on using the actuary's work as audit evidence~~, in particular the auditor:~~.

~~(a) evaluates the competence, capabilities and objectivity of the actuary;~~

~~(b) evaluates the adequacy of the scope of the actuary's work for the purposes of the audit;~~

~~(c) evaluates the appropriateness of the actuarial certificates as audit evidence; and~~

~~(d) assesses whether the actuary's findings are properly reflected in the financial report.~~

~~129. In assessing the actuary's competence, capabilities and objectivity, the auditor ordinarily relies on the actuary's membership of The Institute of Actuaries of Australia or equivalent body, including adherence to their code of professional conduct and professional standards, and the actuary's experience and reputation in the field.~~

~~130.~~ The trustees are required to obtain ~~the following actuarial reports and certificates:~~

~~(a) Actuarial report for defined benefits funds, covering the value of assets, adequacy of assets to meet accrued benefit liabilities, recommended contribution rates and the SMSF's financial position, prepared:~~

~~(i) on establishment or conversion to the defined benefit fund;[60,61]~~

~~(ii) triennially when in the accumulation phase;[62] and~~

~~(iii) annually when in pension mode.[63]~~

~~(b) Funding and solvency certificate for defined benefit funds, covering solvency and the minimum contributions required to secure the SMSF's solvency, for provision to employer-sponsors,[64] prepared:~~

~~(i) on establishment of the defined benefit fund;[65]~~

~~(ii) within 3 months of the expiry of the existing certificate;[66]~~

~~(iii) on occurrence of a notifiable event;[67] and~~

~~(iv) under a number of other circumstances.~~an

~~(c)~~ ~~A~~actuarial certificate for ~~accumulation~~ funds with members in both pension and accumulation phases, where the assets are un-segregated, covering the proportion of income which is tax

~~60 Regulation 9.29 of the SISR.~~
~~61 Since May 2004, establishment of or conversion to defined benefits funds is no longer permitted.~~
~~62 Regulation 9.29 of the SISR.~~
~~63 Regulation 9.29A of the SISR.~~
~~64 Regulation 9.09 of the SISR.~~
~~65 Regulation 9.11 of the SISR.~~
~~66 Regulation 9.14 of the SISR.~~
~~67 Regulation 9.13 of the SISR.~~

exempt, obtained annually.[68] Actuarial certificates will also be required if the fund pays a pension that is not prescribed under the SISR.

130. Actuarial certificates are not required for accumulation funds paying pensions with segregated assets if the assets are segregated for the entire year of income.

131. Where the auditor relies on an actuarial certificate produced by a management's expert as audit evidence, the requirements of ASA 500 and the guidance in GS 005 requires the auditor to:

(a) Assess the competence, capabilities and objectivity of the actuary;

(b) Obtain an understanding of the work of the actuary; and

(c) Evaluate the appropriateness and adequacy of the work of the actuary including:

(i) Assessing the relevance and reasonableness of the actuaries findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;

(ii) If the expert's work involves the use of significant assumptions and methods, consideration of the relevance and reasonableness of those assumptions and methods; and

(iii) If the expert's work involves significant use of source data, consideration of the relevance, completeness and accuracy of that source data.

~~131.~~ Actuarial reports are a means of reviewing a SMSF's progress in achieving its objectives of providing the member's future benefits and in determining the share of the fund's income that may be exempt from tax as a result of paying pensions to members. ~~The results of an actuarial valuation for a defined benefit fund are used to determine the appropriate contribution levels and to indicate any surplus or deficiency in the funding of the SMSF. Employer sponsors need to pay contributions which are not less than the certified minimum contributions in order to maintain the defined benefit fund's solvency.~~

132.

[68] See Section 295-390 of the ITAA 1997.

PART A – FINANCIAL AUDIT

~~132.~~133. The ATO's approved form auditor's report Part A: *Financial report* requires the auditor to conduct the audit in accordance with Auditing Standards to form an opinion regarding the fair presentation of the financial report of the SMSF for the reporting period, in accordance with stated accounting policies, which are consistent with the financial reporting requirements of the SMSF's governing rules, compliant with the SISA and SISR and are appropriate to meet the needs of members.

~~133.~~134. ASA 200 requires the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework. As SMSFs generally prepare special purpose financial reports they are not required to formally adopt Australian Accounting Standards and the trustees determine the applicable financial reporting framework which they will apply to the SMSF's financial report.[69] The basis for preparation of the report is disclosed in the accounting policy notes in the financial report.

Financial Reports

~~134. The type of financial report which a SMSF prepares depends on whether it is an accumulation or a defined benefit fund.~~

135. An accumulation fund, or defined contribution fund,~~[70]~~ is a fund which is not a defined benefits fund.[71] 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.

~~136. A defined benefit fund is a fund with at least one defined benefit member and some or all of the contributions to which are not paid into the fund, or accumulated, in respect of any individual member but are paid into the fund, or accumulated, in the form of an aggregate amount.[72] A defined benefit member is a member entitled to benefits determined by reference to a formula specified in the fund's governing rules, which is generally based on the member's salary at a particular date or the member's salary averaged over a period before retirement.~~

~~137.~~136. The requirements for financial reports for a SMSF are set out in the SISA and SISR. In summary, for an accumulation fund they comprise~~, either~~:

~~(a) for a SMSF that is an accumulation fund, or a defined benefit fund with an actuarial review at the reporting date:[73]~~

(i) a statement of financial position; and

(ii) an operating statement~~; or~~.

~~(b) for a SMSF that is a defined benefit fund:[74]~~

~~(i) a statement of net assets; and~~

~~(ii) a statement of changes in net assets.~~

These are special purpose financial reports, under the Accounting Standards framework.~~.~~ Funds, where the benefits are wholly determined by reference to life assurance policies,

---

69 If a SMSF is a reporting entity, the SMSF prepares general purpose financial reports and adheres to the Australian Accounting Standards in the preparation of that report.

~~70 Term used in Australian Accounting Standard AAS 25 *Financial Reporting of Superannuation Plans*.~~

71 Definition from regulation 1.03(1) of the SISR.

~~72 Definition from regulation 1.03(1) of the SISR.~~

~~73 Section 35B of the SISA.~~

~~74 Regulation 8.01 of the SISR.~~

prepare significantly different financial reports to other SMSFs. Guidance on these reports is provided in the SISR.[75] This Guidance Statement does not deal with the audit of these funds.

~~138. 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 financial statements. 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.~~

~~139.~~137. ~~Although the presentation differs between the two types of reports that a SMSF may prepare, the same~~ Typical account categories in an SMSFs financial ~~will require auditing, including~~report include:

- Assets:
  - Cash and cash equivalents.
  - Investments.
  - Receivables.
  - Prepayments.
- Liabilities:
  - Tax liabilities (current and deferred).
  - Accounts payable and accruals.
  - Borrowings, including limited recourse borrowing arrangements.
  - Accrued benefits ~~(disclosed in the notes to the financial statements for defined benefit funds).~~.
  - Vested benefits (disclosed in the notes to the financial statements).
- Reserves.
- Revenue:
  - Investment revenue, including changes in net market values.
  - Proceeds from insurance policies.
  - Contributions and transfers in.
- Expenses:
  - General administration expenses.
  - Tax expenses.
  - Benefits paid.

[75] See Regulations 8.02 and 8.03 of the SISR.

Guidance on auditing each of these balances and transactions is provided in paragraphs ~~153~~ 150 to ~~240~~234, and illustrative financial audit procedures are also provided in Appendix ~~5~~ 4 of this Guidance Statement.

Assertions and Audit Evidence

~~140.~~138. In representing that the financial report gives a fair presentation of the SMSF's position, results and disclosure during the reporting period and is prepared in accordance with the applicable financial reporting framework, the trustees 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.

~~141.~~139. In accordance with ASA 315, 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.

~~142.~~140. 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 in net assets~~ for the period under audit:

(i) *Occurrence* - transactions and events that have been recorded have occurred and pertain 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.

(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 member entitlements exist.

(ii) *Rights and obligations* (*ownership*) - the SMSF holds or controls the rights to assets, either directly or beneficially, and liabilities are the obligations of the SMSF.

(iii) *Completeness* - ~~all~~ assets, liabilities and member entitlements that *should* have been recorded have been recorded.

(iv) *Valuation and allocation* - assets, liabilities and member entitlements 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 and 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 presented and described appropriately, and disclosures are expressed clearly.

(iv) *Accuracy and valuation* - financial and other information is disclosed fairly and at appropriate amounts.

Materiality

~~143.~~141. ASA 320 requires the auditor to make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan risk assessment procedures, further audit procedures, selection strategies and other audit procedures for the financial audit. Ordinarily, a quantitative materiality level is calculated by applying a percentage, based on the auditor's professional judgement, to the selected benchmark or benchmarks, which may include:

- Total gross assets.
- Net assets.
- Total member entitlements.
- Total gross income.
- Total Expenses

~~144.~~142. The auditor uses the preliminary quantitative materiality level and the assessed risk of material misstatement at both the financial report level and at the assertion level, for classes of transactions and account balances, to determine the nature, timing and extent of audit procedures for the financial audit.

~~145.~~143. In assessing the materiality of any misstatements identified during the audit and their impact on the auditor's report, the auditor considers both quantitative and qualitative factors. Qualitative factors which the auditor considers include:

- The significance of a misstatement to the SMSF.
- The pervasiveness of a misstatement.
- The effect of misstatement on the financial report as a whole.

~~146.~~144. ASA 450 requires the auditor to consider the possibility that the cumulative result of uncorrected misstatements below the materiality level could have a material effect on the financial report.

Opening Balances

~~147.~~145. Upon appointment to a new engagement, ASA 510 requires the auditor to obtain sufficient appropriate audit evidence that:

(a) 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;

(b) the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated (prior year audited figures are restated if a prior year error is material); and

(c) appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial report or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

~~148.~~146. 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, the current auditor considers the professional competence and independence of the predecessor auditor. If the prior period's auditor's opinion was modified, under ASA 705, the auditor pays particular attention in the current period to the matter which resulted in the prior period modification.

~~149.~~147. Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the relevant ethical requirements.

~~150.~~148. ~~If the prior period's financial report was not audited or when~~When the auditor is not able to obtain sufficient appropriate audit evidence by examining the work of the previous auditor, the auditor undertakes further audit procedures to obtain sufficient appropriate audit evidence to ascertain whether the opening balances are stated fairly.

~~151.~~149. Ordinarily, some audit evidence may be obtained as part of the current period's audit procedures for the opening balances of current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other ~~smaller~~ material items may provide sufficient appropriate audit evidence. For investments and material balances, the auditor examines the accounting records and other information underlying the investments which 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.

~~152.~~150. If audit procedures do not result in sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's report is modified. Further guidance on modifications to the auditor's report is provided in paragraphs ~~260~~ 250 to ~~267~~257.

Cash and Cash Equivalents

~~153.~~151. Cash and cash equivalents include bank accounts, cash management trusts and other cash transactional facilities held with banks, fund managers, credit unions and other approved financial or deposit taking institutions. These accounts provide either a paper based record or electronic record of transactions and may have cheque, direct debit or internet banking facilities.

~~154.~~152. The audit assertions for auditing a SMSF's cash and cash equivalents are:

- Existence – obtaining evidence that the cash exists.
- Rights and obligations (ownership) – obtaining evidence that the cash is owned directly or beneficially by the SMSF.
- Completeness – obtaining evidence that all cash owned by the SMSF is recorded.
- Valuation and allocation – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.

~~155.~~153. Cash and cash equivalents are a SMSF's most liquid assets and so may carry a high fraud risk. The auditor remains alert to fraud and the risk of fraud with respect to the SMSF's bank accounts. ~~The auditor makes enquires regarding who has access to the account via internet or phone banking and access to cheque books.~~ The auditor assesses the internal controls surrounding the authorisation of payments and receipts to ascertain whether the cash of the SMSF ~~are~~ is safeguarded adequately. The auditor remains sceptical of transactions in the bank accounts that may relate to early access or fraud perpetrated not only by the members or trustees but by those related parties that may have access to fund's bank accounts.

~~156.~~154. If the banking operations are significant to the audit, the auditor sends bank confirmation requests[76] to the SMSF's banks. A bank confirmation is a request to a bank to provide independent confirmation for audit purposes of such information as the SMSF's account balances, securities, treasury management instruments, documents and other related information held by the bank on behalf of the SMSF. The confirmation will also seek to identify any deliberate or inadvertent borrowings with the bank.

~~157.~~155. Some SMSFs may utilise a cash account established with their broker, investment account or other investment platform (for example, IDPS) 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 may authorise transactions to ensure that only authorised investment trading takes place. ~~The auditor also needs to obtain sufficient audit evidence that the controls at the broker, investment account or other investment platform are effective.~~

Investments

~~158.~~156. 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, PSTs and insurance policies.
- Unlisted investments including shares and units in widely held entities.
- Unlisted investments including shares and units in closely held or related entities.
- Derivatives such as futures, options and warrants.
- Assets subject to limited recourse borrowing arrangements.
- Real property.
- Collectables and personal use assets[77] such as artwork, antiques, wine~~;~~ and recreational boats.

~~159.~~157. Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.

~~160.~~158. The audit assertions for auditing a SMSF's investments are:

- Existence – obtaining evidence that the investment exists.
- Rights and obligations (ownership) – obtaining evidence that the investments are owned directly or beneficially by the SMSF.

[76] For an example of a Bank Audit Confirmation, refer to GS 016.
[77] Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

- Completeness – obtaining evidence that ~~all~~ investments owned by the SMSF are recorded in the accounts.
- Valuation and allocation – obtaining evidence that investments are valued in accordance with the accounting policies adopted, allocated to the correct account and disclosed fairly in accordance with the stated policies.

~~161.~~159. Audit risks to be considered in relation to auditing investments may include, but are not limited to:

- Over or understatement of investment values, including compliance with the SISR in valuing investments at market value.
- Investments not beneficially owned by the SMSF.

~~162.~~160. 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 auditing procedures.

Existence and Ownership

~~163.~~161. In auditing existence of the SMSF's assets, the auditor may either physically inspect the assets or examine documentation supporting their existence. The documentation may also verify ownership. If assets are registered in the name of the trustees, corporate trustee or custodian, the auditor also obtains audit evidence that the SMSF is the beneficial owner and that the assets are being held on behalf of the SMSF. Evidence of beneficial ownership may include an acknowledgement of trust or equivalent document.

Completeness

~~164.~~162. 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 material 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 and Allocation of Assets

~~165.~~163. As the SMSF's financial report is generally a special purpose financial report, the trustees choose the financial reporting framework under which the SMSF reports. Trustees exercise their discretion when determining the most appropriate market value[78] to be applied to each investment of the SMSF. Under ASA 800, the auditor's responsibility is to form an opinion regarding fair presentation in accordance with the identified financial reporting framework or identified basis of accounting. Under ASA 540, the auditor is required to obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the SMSF's applicable financial reporting framework. The auditor evaluates whether the valuation method employed is consistent with the financial reporting framework adopted and the policies described in the accounting policy notes, whether the method of measurement is appropriate in the circumstances and that the method adopted has been applied consistently.

~~166.~~164. When preparing year end accounts, SMSF~~s'~~ assets are required to be valued at market value.[79] Market value is defined in the SISA[80] and the ATO's guidance on the process to

[78] See Regulation 8.02B of the SISR.
[79] See Regulation 8.02B of the SISR.

establish a market value is contained in its *Valuation guidelines for self-managed superannuation funds*. ~~AAS 25 *Financial Reporting by Superannuation Plans*, requires that assets be measured at *net* market value, derived after deducting the costs of disposal from market value. To the extent that there may be inconsistencies in the valuation approach, practitioners are advised to contact the ATO to discuss their specific circumstances.~~

~~167.~~165. The auditor obtains an understanding of the trustees' rationale for selecting the basis of determining market value and exercises professional judgement in assessing whether the basis is appropriate given the nature of the asset and the financial and investment markets in which the SMSF operates. The auditor obtains sufficient appropriate audit evidence to support the trustee's rationale for determining the market value of each asset class.

~~168.~~166. It is not the role of the auditor to value the assets. The role of the auditor is to check that assets have been reported at market value, and assess~~es~~ and document whether the basis of establishing market value is reasonable and the valuation is accurate in light of the SISA, SISR, and ATO guidelines. The auditor assesses the risks of material misstatement of the asset values, ~~and~~ designs and performs audit procedures and documents conclusions in response to the assessed risks.

~~169.~~167. SMSFs may invest directly in unit trusts, listed securities, PSTs or other investment products for which market prices are published and readily available. The auditor may verify that the unit price used is consistent with reference to cum-distribution or ex-distribution price and any accrual of income. For these investments, the product or unit is recorded as an asset in the records of the SMSF rather than the underlying investments.

~~170.~~168. Non-monetary items, such as property and collectables, require alternative methods to arrive at market value. The auditor makes reference to the ATO's *Valuation guidelines for self-managed superannuation funds* in order to establish that the basis for determining market value is appropriate to meet the requirements of the ATO and the SISR.

~~171.~~169. Where the auditor is unable to form an opinion in assessing whether the valuation is in accordance with the financial reporting framework adopted, due to uncertainty, and no expert valuation can be obtained, the auditor considers modification of the auditor's report, taking into account materiality and the risk of material misstatement. The auditor is required to report to the ATO in an Audit Contravention Report where there is a contravention of regulation 8.02B of the SISR.

~~172.~~170. To protect the value of their assets, SMSFs may obtain insurance cover over the assets. In auditing ownership and valuation of assets, the auditor obtains evidence that:

(a) the insurance exists;

(b) the SMSF is both the owner of the asset and the beneficiary of the policy;

(c) the premium is paid by the SMSF; and

(d) the cover is effected and current.

~~173.~~171. With respect to investment properties, residential or commercial, circumstances may exist where the SMSF's tenancy lease agreement stipulates that the tenant is required to pay for the insurance. In these cases, the auditor checks to see if the policy is up to date and the beneficiary of the insurance benefit is the SMSF and not the tenant.

IDPS and Other Service Organisations

~~174.~~172. Whilst the auditor of a SMSF may be able to rely on the annual investor statement and auditor's report provided in relation to an IDPS[81] or a service organisations report under

[80] See Subsection 10(1) of the SISA.
[81] See paragraph ~~121~~ 123 of this Guidance Statement for a description of IDPS reports.

ASAE 3402 and GS 007 in relation to an investment management service organisation from the service organisation as audit evidence of the operating effectiveness of controls over the services outsourced, the auditor is still required to conduct substantive procedures for all material balances and transactions under ASA 330 to support their financial audit opinion. It may be impractical or impossible to gain access to the service organisation's records to conduct substantive testing, in which case, the auditor may rely on the IDPS report in conjunction with:

- Analytical review of the balances and transactions of the SMSF reported by the service organisation, such as comparison of investment returns with market indices or comparison of expected contribution rates and benefit payments with changes in assets managed by the service organisation.
- Reconciliation of balances and transactions reported by the service organisation with records maintained by the SMSF.
- Confirmation of balances or transactions recorded on behalf of the SMSF from the service organisation.

~~175.~~173. The nature of the audit procedures required to obtain sufficient appropriate audit evidence regarding a SMSF's investments which are managed by or in the custody of an IDPS or another service organisation will depend on the extent to which the records of the SMSF are maintained by the IDPS or service organisation.

~~176.~~174. By comparison, for investments in listed securities, units or products for which prices are readily or publicly available, such as managed funds, Pooled Superannuation Trusts (PSTs) and listed property trusts, registered in the name of the trustee on behalf of the SMSF, for which the SMSF maintains its own accounting records, the auditor is ordinarily able to confirm the number of units held in the end of period statements and taxation summaries or directly with the registry, coupled with substantive testing of the SMSF's records for investments and redemptions. Valuation may be tested against published unit prices using the number of units held.

~~177.~~175. For investments for which recording of material balances or transactions is controlled by the service organisation but accounting records are still maintained by the SMSF and the SMSF has access to the source documentation, such as when assets are held in custody, the end of period statements and taxation summaries may be insufficient evidence alone but may be coupled with evidence of the operating effectiveness of controls within the IDPS or service organisation, confirmation of balances with the service organisation and analytical review of the SMSF's investment activity.

~~178.~~176. For a standalone investment mandate where the IDPS or service organisation maintains the SMSF's accounting records, including source documentation, makes investment decisions based on the mandate and holds the investments on behalf of the SMSF, the SMSF may maintain only limited independent accounting records, source documentation or banking records, in which case the SMSF relies on the service organisation's reports as a basis for preparation of their financial report. Audit evidence in these circumstances may include an auditor's report on controls at the IDPS or service organisation and substantive testing of balances and transactions by either visiting the service organisation, obtaining a special purpose auditor's report from the service organisation on the balances and transactions of the SMSF or conducting testing at the SMSF. Testing at the SMSF may include: valuation using independent sources, confirmation of contributions with employers, verification of benefit payments against members' records, if available, and verification of dividend and trust distributions against independent sources.

~~179.~~177. It may be impossible or impractical to obtain sufficient appropriate audit evidence with respect to material balances or transactions of the SMSF controlled by the IDPS or service organisation, in which case either the auditor qualifies their opinion on the basis of a limitation of scope or issues a disclaimer of opinion, if the effects or possible effects are material and pervasive.

Receivables and Prepayments

~~180.~~178. Where the SMSF accounts on an accruals basis, receivables may include contributions, interest or trust distributions receivable and current tax assets. Receivables are tested primarily for existence, valuation and allocation by confirming the receipt in the subsequent period.

179. If the SMSF accounts on an accruals basis and invests in managed funds that pay distributions post balance date, the auditor verifies that the SMSF has accrued these distributions of income correctly and consistently and that the investment value of the underlying asset has been adjusted accordingly.

~~181.~~

~~182.~~180. Prepayments are tested against cash payments and particular attention paid to transactions with related parties to ensure they relate to a genuine expense.

Liabilities

~~183.~~181. Liabilities of a SMSF, other than accrued benefits which are discussed separately, may include:

- ~~Benefits payable, including benefits arising from insurance claims.~~
- ~~Bank overdrafts, other borrowings and related interest payable.~~
- Goods and Services Tax (GST) payable, if the SMSF is registered for GST.
- Income tax liabilities, current and deferred.
- Accruals for accounting and audit fees.
- Liabilities relating to limited recourse borrowing arrangements.
- Any other accrued expense the trustees have provided for or incurred.
- Benefits payable, including benefits arising from insurance claims.
- Bank overdrafts, other borrowings and related interest payable.

~~Many of these liabilities will only be recorded if the SMSF accounts on an accruals basis.~~

~~184.~~182. The audit assertions with respect to a SMSF's liabilities are:

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

~~185.~~183. Generally, SMSFs are not allowed to borrow. Permitted exceptions are temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions surcharge,[82] settlement of securities transactions where the borrowing was unforeseen or borrowings under limited recourse borrowing arrangements. Sections 67, 67A

[82] The superannuation contributions surcharge was abolished from 1 July 2005; however there may be circumstances where the surcharge may still be levied on contributions relating to periods prior to this date.

and 67B of the SISA detail the additional requirements that are required to be met before the borrowing is accepted.

~~186.~~184. Audit risks to be considered in relation to auditing liabilities may include but are not limited to:

- Liability values being understated.
- Liabilities being omitted.
- Excessive accruals for expenses that will not be paid or which are not legitimate expenses of the SMSF.

~~187.~~185. Normally, the auditor performs a search for unrecorded liabilities by examining brokers' statements for outstanding balances, bank confirmation letters for borrowings or evidence of security provided, banking records for payments after period end and by reviewing the financial records for expenses that were paid in previous years, but billed infrequently or annually such as insurance or accountancy fees, which may not have been included in the current period's accruals. The auditor may seek representations from the trustee that all liabilities of the SMSF have been disclosed and recorded.

~~188. 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.~~

Accrued Benefits

~~189.~~186. The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.

~~190.~~187. Accrued benefits of a SMSF may arise from:

- Accumulation entitlements where the member bears the investment risk.
- Pension accounts due to members.
- ~~Defined benefit entitlements where a party, other than the member, bears the investment risk. The other party is generally an employer before the beneficiary ceases employment or the SMSF post cessation of the member's employment.~~
- Insurance claims paid or payable to the SMSF owing to members.

~~191.~~188. The audit assertions with respect to a SMSF's accrued benefits are:

- Existence – the accrued benefits are entitlements of members.
- 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.
- Valuation and allocation – accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.

~~192.~~189. Audit risks for accrued benefits include, but are not limited to:

- Contributions not being allocated correctly to members.
- Income not being allocated correctly or appropriately to individual members.
- Benefit payments or expenses being allocated incorrectly to member's balances.

- Member balances ~~and components~~ not being carried forward correctly from one period to another.

Vested Benefits

~~193.~~190. 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 maintenance of other conditions. Although vested benefits are an unconditional benefit of the member within the SMSF, those benefits can be accessed only upon satisfying an appropriate condition of release, such as retirement, death, rollover, reaching age 65 or reaching at least preservation age[83] and accessing a transition to retirement income stream. Usually vested benefits are disclosed in the notes to the financial statements.

~~194.~~191. Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member concessional and non-concessional contributions, mandated contributions (compulsory employer contributions) such as Superannuation Guarantee (SG) contributions or superannuation payments made pursuant to an Award or other employment agreement, amounts rolled over or transferred in as minimum benefits and the earnings thereon. ~~Some older SMSFs may have a vesting scale which provides for certain contributions and earnings to progressively vest.~~ Minimum benefits *must* be maintained in the SMSF until they are cashed, rolled over or transferred in accordance with the SISA and SISR benefit payment rules.[84]

~~195.~~192. Audit procedures to test for vesting of minimum benefits include examining the fund's governing rules to ensure that the governing rules fully vest the contributions in the member and testing member and employer contributions for the period ~~to~~ for inclusion in members' accounts. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefits are not being reduced.

~~196. In circumstances where the SMSF is converting from a defined benefit fund to an accumulation fund, the auditor examines whether the conversion will adversely affect members' rights to minimum benefits. Ordinarily, the auditor reviews the actuarial advice issued in relation to the conversion and the resultant figures derived.~~

Reserves

~~197.~~193. A reserve is an amount held within a SMSF that is not allocated specifically to members. Generally, reserves are permitted unless specifically prohibited under a SMSF's governing rules. Typically, reserves are created from contributions not being allocated to a member upon receipt or from excess investment returns ~~or in accordance with actuarial requirements~~.

~~198.~~194. Types of reserves permitted for SMSFs may include, but are not limited to:

- Investment.
- ~~Solvency~~Contribution.
- Miscellaneous.

~~199.~~195. Investment reserves are used to smooth returns ~~and assist with meeting payment obligations for some defined benefit pensions~~.

83 Preservation age is the age at which super benefits can be accessed. Preservation age will rise from 55 to 60 between 2015 and 2024. This will mean that for someone born before 1 July 1960, their preservation age is 55 years, while for someone born after 30 June 1964, their preservation age will be 60.

84 ~~Refer~~ See regulation 5.08 of the SISR.

~~200.~~196. ~~Solvency reserves provide an asset/income buffer to assist in guaranteeing payments of defined benefit pensions and are determined actuarially~~Contribution reserves allow funds to manage potential excess contributions where a contribution is received in the month of June.

~~201.~~197. Miscellaneous reserves can be 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.

~~202.~~198. Contributions received are required by the SISR ~~[85]~~ to be allocated to members within 28 days of the end of the month in which they are received[86]. If a SMSF receives a contribution during a financial period and that contribution is not allocated to a member in that period, the amount should be classified as an "unallocated contribution"[87] at balance date. The unallocated contributions account is similar in nature to a reserve, but contains only contributions held temporarily until they are allocated. Earnings and expenses may not be debited or credited to the unallocated contributions account.

~~203.~~199. Anti-detriment payment (tax saving amount) reserves may be established to pay an additional benefit upon death, equivalent to the tax already paid on contributions for the member. Various methods may be used to calculate the exact amount of the anti-detriment payment and auditors *should* refer to the relevant sections of the ITAA 1997. The reserve may be funded from excess investment returns or allocated from miscellaneous reserves and needs to be established prior to death.

~~204.~~200. Audit considerations for reserves include whether:

- The fund's governing rules permit~~s~~ the making of reserves.
- The assets of the particular reserve are segregated appropriately from the rest of the SMSF's assets.
- Amounts transferred in or out of the reserves are appropriate.
- ~~Actuarial recommendations are met~~The fund has a reserve strategy[88].

Investment and Other Revenue

~~205.~~201. Revenue of a SMSF, other than contributions, may include:

- Dividends.
- Interest.
- Rental income.
- Unit trust distributions.
- Insurance policy proceeds, rebates and bonuses.
- Changes in market value – both realised and unrealised.

~~206.~~202. The audit assertions for revenue received by a SMSF are:

- Occurrence – revenue received by the SMSF is real and has occurred.
- Completeness ~~– all~~ revenue received by the SMSF has been recorded.

~~[85] See Regulation 7.08 of the SISR.~~
[86] See Regulation 7.08 of the SISR.
[87] See TD 2013/22 applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.
[88] See section 52B(2)(g) of the SISA.

- Accuracy – ~~all the~~ revenue received by the SMSF has been recorded appropriately. Changes in market value are based on appropriate and accurate asset valuations.
- Cut-off – ~~all the~~ revenue received by the SMSF has been recorded in the correct period.
- Classification – ~~all the~~ revenue received by the SMSF has been allocated correctly, either to the correct members' accounts or to the asset pool and the tax status of that income is appropriate.

~~207.~~203. Audit risks to be considered in relation to auditing revenue may include:

- Revenue is recognised before it is earned.
- Revenue is not being accounted for in accordance with the SMSF's accounting policies.
- Misstatement of changes in market value due to under or overstatement of market valuation.
- Revenue recognition is ordinarily considered a significant risk for a SMSF.

Contributions and Transfers In

~~208.~~204. Typically, contributions into SMSFs are sourced from either the members or the members' employers. Transfers in are benefits transferred from other superannuation entities. Contributions are classified as either concessional, for which a tax deduction has been claimed by the contributor, or non-concessional, for which no tax deduction has been claimed by the member. Contributions and transfers in to a SMSF may include [89]:

- Employer contributions, including SG, award and salary sacrifice contributions.
- Member contributions, both concessional and non-concessional.
- Spouse contributions.
- Child contributions.
- Rollovers from other complying funds.
- Small business rollovers (CGT small business retirement exemption and CGT small business 15 year exemption ~~amount~~amounts).
- Amounts transferred from a foreign fund.
- Government co-contributions.
- Transfers from the Superannuation Holding Accounts Reserve (SHAR) held by the ATO.
- Personal injury election.
- Other family and friend contributions.
- Directed termination (taxable component) payments.

Contributions may be made in cash or *in-specie* (by transferring an asset) or a combination of both if the fund's governing rules permit the SMSF to accept contributions that are made

[89] ~~Refer to~~See the Self-Managed Superannuation Fund annual return (NAT 71226).

in-specie. Where contributions are made via an in-specie asset transfer, the auditor determines whether the requirements of section 66 of the SISA have been met.

~~209.~~205. The objectives for auditing contributions received by a SMSF are:

- Occurrence – contributions and transfers in recorded by the SMSF are real and have occurred.
- Completeness – ~~all~~ contributions and transfers in ~~receivable~~ from or on behalf of members have been received and recorded.
- Accuracy – ~~all~~ contributions and transfers in have been recorded appropriately.
- Cut-off – ~~all~~ contributions and transfers in have been recorded in the correct period.
- Classification – ~~all~~ contributions and transfers in have been allocated to the correct member and correctly classified as concessional or non-concessional.

~~210.~~206. Audit risks to be considered in relation to contributions and transfers in may include, but are not limited to:

- Incorrect classification and allocation of concessional and non-concessional contributions.
- Incorrect tax treatment of contributions.
- Incorrect cut-off for contributions resulting in failure to recognise that contribution caps have been exceeded.
- Incorrect allocation of the components of transfers in.
- Acceptance of contributions in excess of the fund-capped contributions ~~cap~~limit.[90]
- Understatement of market values for in-specie contributions to avoid exceeding the contributions caps.
- Under or overstatement of market values for in-specie contributions either to provide early access to benefits or to disguise loans to members.

~~211.~~207. ~~Where the auditor also audits the employer-sponsor, the auditor may be able to use evidence from testing of payments and payroll deductions at the employer to verify contributions received by the SMSF. Alternatively, confirmation may be sought from the employers~~Auditors consider the appropriateness of audit evidence to confirm contributions are not materially misstated, such as employer confirmations of contributions paid to the fund or analytically reviewing member PAYG information.~~.~~

Expenses

~~212.~~208. The typical expenses of a SMSF may include:

- Administration fees.
- Audit fees.
- Actuarial advice.
- Legal advice.

[90] Contributions caps are discussed in paragraph ~~222~~ 218 of this Guidance Statement.

- Valuation fees.
- Accounting and tax agent fees.
- Superannuation supervisory levy.
- Investment management fees and financial planning advice.
- Bank fees.
- Property ~~fees – if the SMSF invests in property~~expenses.
- Insurance premiums paid.
- Taxation.

~~213.~~209. The audit objectives with respect to a SMSF's expenses are:

- Occurrence – all expenses recorded by the SMSF were incurred.
- Completeness – all expenses incurred by the SMSF have been recorded.
- Accuracy – all expenses have been recorded appropriately.
- Cut-off – all expenses have been recorded in the correct period.
- Classification – all expenses have been allocated to the proper accounts or members to which they relate.

~~214.~~210. Audit risks to be considered in relation to auditing expenses may include:

- Personal expenses of the members or trustees are recorded as expenses of the SMSF.
- Expenses of the SMSF paid by a member or an employer are not recorded as concessional or non-concessional contributions.
- Incorrect tax treatment of an expense.

~~215.~~211. Ordinarily, the auditor 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[91].

Tax Expense

~~216.~~212. The main areas of focus for an auditor with respect to tax are the tax calculation and allocation of any tax expense or benefit to the members' accounts. The taxation legislation is amended periodically and interpretation of that legislation by the ATO and the courts may change from time to time, consequently, the guidance in this section may become outdated over time and it is the responsibility of the auditor to ensure that they remain up-to-date with the taxation requirements affecting SMSFs. The audit objectives with respect to a SMSF's tax expenses and benefits include:

- Occurrence – Deductions were incurred and imputation credits, carried forward losses and any other offsets are attributable to the SMSF.
- Completeness – ~~All a~~Assessable income, including capital gains, received by the SMSF has been declared.

[91] See section 17(B) of the SISA.

- Accuracy – Assessable income, including capital gains, allowable deductions, exempt current pension income, rebates, offsets and eligible credits attributable to the SMSF are calculated and recorded appropriately.
- Cut-off – Assessable income, including capital gains, allowable deductions, rebates, offsets and eligible credits attributable to the SMSF are declared or claimed in the correct period.
- Classification – The tax status of contributions is correctly determined. Timing differences have been correctly identified and accounted for.

~~217.~~213. Income tax is payable on investment earnings (net of expenses) including capital gains, with full imputation credits for dividends received from Australian companies and credits for dividend and withholding tax on foreign 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 a personal tax deduction (concessional contributions). Deductions are available for certain payments and expenses.

~~218.~~214. Some SMSFs account for deferred income taxes in accordance with Australian Accounting Standard AASB 112 *Income Taxes*, in which case the auditor assesses the impact of that accounting standard upon the SMSF. Ordinarily, the auditor considers whether the recognition of any current or deferred tax liabilities or tax assets is appropriate given likelihood of payment of the liabilities or recovery of the assets based on the age of the members and the circumstances of the SMSF. As most SMSFs operate under a special purpose framework, many elect not to apply AASB 112.

Ordinary Income

~~219.~~215. The ordinary income of the SMSF for tax purposes includes:

- Investment earnings, such as interest, dividends, rent, trust distributions, and realised capital gains.
- Concessional contributions received during the year.

~~220.~~216. Ordinary income does not include:

- Non-concessional contributions.
- Income not derived.
- Dividend income derived but not yet received.
- Non-reversionary bonuses on life policies.
- Income from assets used to fund pensions.

~~221.~~217. Income from assets used to fund pensions is still included for the purpose of accounting and auditing. It is, however, exempt from tax. The auditor, in reviewing the tax calculation, ordinarily establishes that exempt income has been identified and that the income is correctly treated for tax purposes.

Contributions

~~222.~~218. SMSFs are prohibited from accepting a single contribution for a member that exceeds the fund-capped contributions,[92] ~~in a financial year in excess of the caps~~limit specified in the

[92] Fund-capped contributions are defined in regulation 7.04(7) of the SISR.

SISR,[93] in a financial year. If the fund has received an amount ~~and *must* return any amount~~ which is inconsistent with the limit, the trustees must return it to the contributor ~~these caps~~ within 30 days of ~~receipt~~becoming aware of the inconsistency.[94] The auditor makes enquiries to satisfy themselves that contributions exceeding the fund cap are returned and excluded from the tax calculations. If a member exceeds their concessional or non-concessional contribution cap, it does not automatically mean that the excess contribution must be returned. The auditor reviews information pertaining to contributions to ascertain whether the excess contribution is returnable under regulation 7.04 of the SISR, or if an ATO release authority is required to release the excess amount.

~~223.~~219. The auditor verifies contributions against the documentation from the member or member's employer (for example, remittance advices), for correct allocation to members' accounts and appropriate classification as concessional or non-concessional, so that the correct tax treatment is applied.

~~224.~~220. Upon the sale of certain small business assets, members may be able to contribute some or all of the sale proceeds to the SMSF and may be eligible to exclude all or part of the contribution from the non-concessional contributions cap. In these circumstances, the auditor ~~examines the documentation surrounding the contribution and verifies that any small business capital gains tax (CGT) concessional contributions have been calculated appropriately and classified correctly~~confirms the contribution is supported by a *Capital Gains Tax Election Form*[95].

Non-arm's Length Income

~~225.~~221. Non-arm's length[96] income of a SMSF, which includes private company dividends (unless arm's length), income from non-arm's length transactions and ~~certain~~ discretionary trust distributions, is not taxed concessionally. The auditor checks that any non-arm's length income has been classified correctly.

Franked Dividends

~~226.~~222. The auditor checks that any imputation credits attached to a franked dividend to which the SMSF is entitled have been recorded and that the respective franking credit of each dividend is accounted for correctly and that these have been included in the tax 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

~~227.~~223. Growth in the value of most SMSF assets, ~~excluding cash, are~~is subject to CGT on their disposal, with assets purchased prior to 30 June 1988 deemed to be purchased on that date. The auditor examines any asset disposal that may trigger a CGT event to verify that any CGT loss or gain is taken into account in determining the current tax liability. The auditor also verifies that capital losses and discounts appropriate to capital gains have been correctly calculated and applied.

Goods and Service Tax

~~228.~~224. If the SMSF is registered for GST, generally due to owning business real property, and has taxed supplies (income) and input taxed supplies (expenses) the auditor , where material,

93 See r~~R~~egulation 7.04(3) of the SISR. Legislation surrounding contributions and contribution caps can and does change. It is the auditors' responsibility to ensure that they are auditing according to the relevant and applicable legislation and regulation.

94 The ATO's Interpretative Decision, ATO ID 2007/225, states that the trustee is only expected to consider whether contributions individually exceed the contribution caps and the trustee does not need to aggregate *contributions by a member for the year in determining whether excess contributions should be returned. Also refer to ATO ID 2009/29 Superannuation Contributions: return of contribution by SMSF – after 30 day time limit* and ATO ID 2008/90 *Superannuation Contributions: return of fund capped contributions by SMSF.*

95 See ATO form NAT 71161.

96 Prior to 1 July 2007, non-arm's length income was special income under the ITAA. Section 273 of the ITAA (1936) was repealed on 1 July 2007 and replaced by section 295-550 of the ITAA (1997). Refer to Public Tax Ruling TR2006/7 for further information.

reviews the GST calculation and business activity statements (BAS) to ensure that the correct amounts are being disclosed and the SMSF is meeting its reporting and payment obligations with respect to GST. Input tax credits are claimable on supplies relating to commercial property, on other supplies at the reduced rate of 75% and not claimable on certain expenses, such as ~~tax and~~accounting fees for the preparation of the tax return or BAS or on audit fees.

Deductions

~~229.~~225. Expenses incurred by a SMSF may be deductible by the SMSF under the ITAA subject to the normal principles governing the tax deductibility of expenditure incurred by superannuation funds.[97] The auditor tests the deductions claimed to verify their occurrence, deductibility and that they were incurred by 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. 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 capital allowances (depreciation) may be deductible depending on the circumstances of the SMSF. Depending on the type of insurance policy, the insurance premium may also be deductible, in part or in full. The auditor may also check that capital items have been correctly treated, as items of a strictly capital nature ~~may~~ and are not be tax deductible.

~~230.~~226. The auditor verifies that expenses are not claimed if they relate to exempt pension income.[98]

Actuarial Reports for Un-segregated Assets

~~231.~~227. Where a fund has un-segregated assets and all of the assets of the fund were not supporting pensions for the whole of the year, it is necessary to obtain an actuarial certificate to certify the portion of exempt pension income. In these circumstances, the auditor sights and evaluates the actuarial tax certificate that is used in the calculation of taxable income and reviews the accuracy of the information provided to the actuary to prepare the actuarial tax certificate. The auditor confirms that the correct percentage figure certified by the actuary has been applied to calculate the exempt current pension income for the SMSF.

Benefits Paid

~~232.~~228. Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65, death, ~~ill-health~~physical or mental incapacity,[99] termination of employment, ~~request to rollover their benefit to another complying superannuation fund,~~or reaching preservation age and -commenc~~ement of~~ing a transition[~~100~~] to retirement[101] income stream[102]. ~~(upon turning 55) or commencement of an income stream upon the member retiring or turning 65.~~[~~103~~] – In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.[104]

---

97 The ATO has issued a number of publications which provide further guidance on the deductibility of expenses incurred by the SMSF. They include Taxation Ruling TR 93/17 *Income tax: income tax deductions available to superannuation funds*, and its addendum TR 93/17A, which provides general guidance, Miscellaneous Tax Ruling MT 2005/1, which provides specific guidance on expenses paid by members or employers, and Tax Ruling IT 2672, which discusses the deductibility of amending a deed.

98 Guidance and information on how exempt current pension income and relevant deductions (TR 93/17) should be applied for funds with segregated or unsegregated assets is available on the ATO website www.ato.gov.au (search under ECPI).

99 ~~Ill-health may include total and permanent disability, total and temporary disability or trauma, depending on the insurance policies held on behalf of members~~This can be permanent or temporary incapacity which stops the member from engaging in gainful employment.

~~100 More information about transition to retirement is available on ATO website www.ato.gov.au (search under transition to retirement)ATO NAT 14967 *Transition to retirement*.~~

101 More information about transition to retirement is available on ATO website www.ato.gov.au (search under transition to retirement).

102 Other conditions of release include a terminal medical condition, financial hardship and compassionate grounds.

~~103 Other circumstances may also trigger a condition of release, such as financial hardship.~~

104 In circumstances where a benefit payment has been split, the auditor reviews the documentation surrounding the split and mechanism by which the superannuation entitlement was dealt with in the property settlement arrangements. See paragraphs ~~238~~ 234 to ~~240~~ 236 for further guidance on benefit splitting.

~~233.~~229. SMSFs may pay benefits by way of a lump sum (in cash or *in specie*[105]), pension or insurance benefit.[106] An accumulation fund may pay the following types of pensions:

(a) account based income streams, including transition to retirement income streams; and

(b) existing allocated pensions and market linked income streams (formerly known as market linked pensions).

~~234. New defined benefit pensions have been prohibited since 2004. However, existing defined benefit funds may continue to pay the following types of pensions:~~

~~(a) flexi pensions (also known as commutable life-time pensions);~~

~~(b) life-time income streams; or~~

~~(c) complying fixed term income streams.~~

~~Benefits may 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.~~

~~235.~~230. The relevant assertions with respect to benefits paid are:

- Occurrence – ~~all~~ benefits recorded by the SMSF as paid have been incurred and paid.
- Completeness – ~~all~~ benefits paid or payable, if appropriate, by the SMSF have been recorded.
- Accuracy – benefits paid by the SMSF have been calculated appropriately. The minimum annual benefits amount has been paid and, for transition-to-retirement income streams only, the payment does not exceed the maximum annual payment amount. The ~~and the~~ correct amount of Pay-As-You-Go (PAYG) withholding tax, has been withheld, where the benefit is from an untaxed source or the ~~if the~~ member is under 60~~, has been deducted~~.
- Cut-off – ~~all~~ benefits paid by the SMSF have been recorded in the correct period.
- Classification – ~~all~~ benefits paid by the SMSF have been recorded in the proper accounts ~~and are~~including ~~allocated to~~ the appropriate member's account.

~~236.~~231. Audit risks to be considered in relation to auditing benefits may include, but are not limited to:

- Payment of a benefit to which the member or beneficiary are not entitled, providing early access to benefits.
- Incorrect calculation of a benefit payment~~, including any PAYG withholding tax~~.
- Payment of a benefit to an incorrect member or beneficiary.
- Pension payments not paid in cash
- Minimum payments not made for all pensions and the maximum payment for a transition-to-retirement income stream is exceeded.
-

[105] Assuming in specie payments are permitted by the fund's governing rules.

[106] A total and temporary disability benefit (salary continuance/income protection benefit) is generally paid as a regular income payment without reference to an account balance.

232. For death benefits, the auditor establishes if a binding death benefit nomination exists, and reviews that the specific trust deed requirements have been met following the death of a member.

~~237.~~233. 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 fund's governing rules may permit establishment under a discretionary power in the deed. The auditor, in the case of death of a pensioner with a reversionary benefit, checks that the pension is being paid to the nominated reversionary beneficiary and that the benefit has not been transferred to reserves or paid out as a lump sum.

Divorce and Splitting of Benefits

~~238.~~234. In circumstances where a member's benefit within a SMSF is subject to a property settlement upon divorce or a "splitting arrangement", the auditor reviews the documentation supporting the splitting of the benefit. A settlement is evidenced by one or more of the following documents:

(a) Superannuation agreement – negotiated between the divorcing parties and certified by two legal practitioners who represent the respective divorcing parties.

(b) Consent order – an order of the court frequently negotiated between two legal practitioners who represent the respective divorcing parties and submitted to the court for approval.

(c) Arbitrated court order – where the divorcing parties are unable to agree on the settlement terms and the court decides the settlement amount and terms.

(d) Notice by a non-member.[107]

(e) Notice by a trustee of information regarding an interest subject to a payment split.[108]

(f) Payment split notice by a trustee to both member and non-member.[109]

(g) One of the following notices by the non-member spouse to the trustees to:

(i) create a new interest;[110]

(ii) rollover or transfer benefits;[111]

(iii) pay a lump sum where non-member has met a condition for release.[112]

~~239.~~235. Once an order or agreement has been executed properly, the trustees are required to implement the order or agreement. In general, this may mean one of the parties exits the SMSF. Where there is a two member SMSF, 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 of a benefit. The auditor is careful to ensure that the capital gains issues are addressed, and that the tax components and preservation status of the superannuation payments are maintained. If a member exits the SMSF, the remaining trustee needs to ensure compliance with section 17A by:

(a) appointing a new individual ~~member~~trustee; or

[107] See n~~N~~otice under regulation 72 of the *Family Law (Superannuation) Regulations 2001*.
[108] See n~~N~~otice under regulation 2.36C of the SISR.
[109] See n~~N~~otice under regulation 7A.03 of the SISR.
[110] ~~Notice~~ See notice under regulation 7A.03C or 7A.05 of the SISR.
[111] See n~~N~~otice under regulation 7A.03D or 7A.06 of the SISR.
[112] See n~~N~~otice under regulations 7A.03E or 7A.07 of the SISR.

(b) appointing a corporate trustee of which the remaining member is the sole director or one of two directors.

~~240.~~236. Due to the potential complexities and subtleties of the court orders, the possibility of court orders inadvertently conflicting with the SISA or SISR exists, and the trustees' obligations to perform the order irrespective of the implications for compliance with the SISA and SISR, the auditor may seek legal advice where benefits payments under a court order may be in contravention of the SISA or SISR.

Other Audit Considerations

Going Concern

~~241.~~237. The SMSF's financial report is prepared on the basis that the SMSF is a going concern. Under ASA 570, the auditor is required to consider and remain alert to whether there are any events, conditions and related business risks which may cast significant doubt on the SMSF's ability to continue as a going concern.[113] In assessing going concern, the auditor considers the period of approximately 12 months following the date of the current auditor's report, being the period up until the expected date of the auditor's report for the next annual reporting period.

~~242.~~238. 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 tax, audit and other expenses, payable over the coming year. If the SMSF is in an unsatisfactory financial position for the purposes of reporting under SISA section 130,[114] the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

~~243.~~239. ~~For an accumulation fund~~T~~, t~~he 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, so the auditor undertakes further audit procedures to investigate the deficiency. These procedures include identifying whether an actuarially determined technical insolvency program is in place and assessing whether it enables the SMSF to continue as a going concern. The trustee is required to initiate a technical insolvency program, designed by an actuary to return the SMSF to a solvent position within five years, if the SMSF is technically insolvent under the SISR.[115] An accumulation fund is technically insolvent under the SISR if the net realisable value of the assets of the SMSF is less than the minimum guaranteed benefits to members.[116]

~~244. 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. Therefore, the auditor determines whether the value of accrued benefits exceeds the value of the SMSF's net assets. If this is the case, the SMSF may not be a going concern, so the auditor undertakes further audit procedures to investigate the deficiency, including determining whether:~~

~~(a) The net assets exceed the value of vested benefits;~~

~~(b) the SMSF has a current actuarial funding and solvency certificate;[117] or~~

---

113 ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

114 Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph~~s~~ ~~371~~ 360~~to 372~~ of this Guidance Statement.

115 See r~~R~~egulation 9.38(1) of the SISR.

116 See r~~R~~egulation 9.35 of the SISR.

~~117 Regulation 9.90 of the SISR.~~

(c) ~~the SMSF is technically insolvent under the SISR, due to the minimum benefit index[118] being less than 1[119] and if so, whether an actuarially determined technical insolvency program has been initiated by the trustees and a special funding and solvency certificate has been obtained.~~

~~245. A deficiency in net assets with respect to the value of vested benefits of a defined benefits fund indicates that the SMSF may be experiencing going concern problems and the auditor assesses the actuarial certificates and any technical insolvency program in place to determine if this deficiency can be overcome. The auditor considers:~~

~~(a) whether the employer has been making contributions in accordance with the actuarially determined recommendations in the funding and solvency certificate;~~

~~(b) the employers' or members' ability to remediate the funding deficiency in the long term, including any material uncertainties regarding their ability to do so; and~~

~~(c) whether the pension or income streams have been commuted to a lower pension after period end, such that the SMSF's assets will be sufficient to fund the reduced pension or income stream.~~

~~246. The trustee of a defined benefits fund is required to obtain an actuarial funding and solvency certificate.[120] The actuary certifies the solvency of the SMSF as at the effective date of the certificate and the minimum contributions expected to be required to secure the solvency of the SMSF on the expiry date,[121] which may be between one to five years after the effective date of the certificate. The auditor checks whether the certificate has ceased to have effect due to any of the reasons set out in the SISR,[122] including expiry of the certificate or occurrence of a notifiable event.~~

~~247. If the SMSF is technically insolvent, the auditor ascertains whether a special funding and solvency certificate has been obtained by the trustee and a technical insolvency program initiated, to ensure that the SMSF is in a solvent position within five years, or alternatively winding-up proceedings have been initiated, as required under the SISR.[123] The auditor assesses whether any technical insolvency program enables the SMSF to continue as a going concern. If winding-up proceedings have commenced the SMSF is not a going concern.~~

~~248.~~240. Having considered the matters above, under ASA 570, the auditor may conclude that either:

(a) an unmodified auditor's opinion may be issued due to the fact that:

(i) the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the SMSF, for the financial report to be prepared on a going concern basis; or

(ii) there is adequate disclosure of the principal conditions which caused the auditor to question the going concern basis, including, as appropriate, the trustees' evaluation of their significance and possible effects and any funding plans and other mitigating factors; or

(b) a modified auditor's opinion is necessary due to the existence of a material uncertainty which may cast significant doubt on the SMSF's ability to continue as a going concern, expressed as either:

~~[118] The minimum benefits index is calculated in accordance with regulation 9.15 of the SISR.~~
~~[119] Regulation 9.21 of the SISR.~~
~~[120] Regulation 9.09 of the SISR.~~
~~[121] Regulation 9.10 of the SISR.~~
~~[122] Regulation 9.12(2) of the SISR.~~
~~[123] Regulation 9.17 of the SISR.~~

(i) an emphasis of matter section in the auditor's report regarding a going concern uncertainty, where there is adequate disclosure of the uncertainty; or

(ii) a qualified or adverse opinion in the auditor's report, where there is inadequate disclosure of the uncertainty; or

(c) a modified auditor's opinion is necessary, due to the fact that the SMSF will not be able to continue as a going concern where the financial report had been prepared on a going concern basis, expressed as an adverse opinion.

~~249.~~241. Under ASA 570, the auditor communicates to the trustees if a modified opinion is to be issued on the basis of going concern. This communication may be done in conjunction with communication of other matters of governance interest arising from the audit, discussed further in paragraphs ~~268~~ 260 to ~~272~~264.

Subsequent Events

~~250.~~242. ASA 560 requires the auditor to apply audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial report have been identified. Under ASA 560, audit procedures to identify such events, are performed as near as practicable to the date of the auditor's report and may include reading the trustees' minutes, making enquiries of the SMSF's lawyers concerning litigation or a marital split and making enquiries of the trustees as to whether any subsequent events have occurred which might affect the financial report, such as sales of investments or significant adjustments to investment values.

~~251.~~243. The auditor's response to the subsequent events depends on the potential for such events to affect the financial report and 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 and amendments to the financial report. Whereas, if an immaterial investment of the SMSF became worthless, this may not warrant any amendment.

Winding-Up

~~252.~~244. If the trustees decide to wind up the SMSF, the SMSF still needs to be audited for the relevant financial year~~, except in situations where an approval has been given by the ATO for a return not necessary to be required~~.

~~253.~~245. Upon winding-up, an 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 and the recipients have met a condition of release ~~with the correct amount of tax deducted and remitted~~.
- Cash – to ensure there are no transactions post balance date and that the balance is nil at balance date.
- Rollovers – to test whether they were paid to complying superannuation funds~~, where applicable.~~.

Change of Auditor

~~254.~~246. When SMSFs transfer from one auditor to another, the new auditor needs to follow ASA 510 to determine whether the opening balances contain misstatements that materially affect the current period's financial report, whether the prior year closing balances have been correctly brought forward and that appropriate accounting policies are applied consistently. The auditor obtains the prior year signed audit report and undertakes further investigation if the report was modified. ~~Any contributions and benefit payments made prior to the transfer date are tested substantively.~~

Anti-Money Laundering

~~255.~~247. *The Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) is legislation designed to deter money laundering and terrorism financing. The AML/CTF Act sets out which entities are reporting entities 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.~~[124]~~ Auditors of SMSFs also have no formal AML/CTF reporting obligations, but they remain alert to potential money laundering or terrorist activities and report suspicions voluntarily, if appropriate. ~~For newly established SMSFs, auditors of SMSFs would typically check for the 100 point identification as part of the application process.~~

Reporting

~~256.~~248. With respect to the financial audit, the SISA, section 35C, requires the auditor to:

(a) Give a report to the trustees, in the approved form, ~~on the audit of the SMSF's financial report for the year of income; and~~of the operations of the entity for that year.

(b) give the trustees the report in the approved form,[125] as issued by the ATO, within the prescribed time as set out in the SISR, being a day before the latest date stipulated by the ATO for lodgement of the Annual Return.[126]

~~257.~~249. ASA 700 requires the auditor to form an opinion as to whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. In order to form that opinion the auditor *shall* conclude as to whether the auditor has obtained reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error.

~~258.~~250. 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, in order to be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached.

~~259.~~251. In forming an opinion, the auditor considers all relevant evidence obtained, regardless of whether it appears to corroborate, or to contradict, information contained in the financial report.

Modifications to the Auditor's Opinion

~~260.~~252. Modifications to the auditor's opinion may be either:

(a) a qualified opinion;

(b) a disclaimer of opinion; or

(c) an adverse opinion.

ASA 705 contains requirements and guidance regarding when a modification to the auditor's opinion on the financial audit is necessary.

~~[124] At the time of this publication there are proposed changes that will capture roll-overs to a SMSF as a designated service under the AML/CTF Act, these changes have not been passed by Parliament and are currently not law.~~

[125] The approved form auditor's report ~~is contained in Appendix 3 of this Guidance Statement and~~ is also available at www.ato.gov.au/superfunds.

[126] See ~~r~~Regulation 8.03 of the SISR.

~~261.~~253. ASA 800 requires an auditor's report for a SMSF to include an emphasis of matter paragraph to highlight the financial report is prepared in accordance with a special purpose framework and as a result, the financial report may not be suitable for another purpose. The inclusion of an emphasis of matter paragraph does not affect the auditor's opinion, but draws the user's attention to the matter raised. ASA 706 contains the requirements and guidance regarding an emphasis of matter paragraph. The ATO approved auditor's report[127] contains the required wording.

~~262.~~254. An auditor's report may also include an emphasis of matter paragraph to highlight:

(a) that a material uncertainty exists regarding a going concern matter that is adequately disclosed in the financial report;

(b) that additional disclosure is required to highlight that the financial report may be potentially misleading; or

(c) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.

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.

~~263.~~255. An auditor's report may include another matter paragraph to highlight:

(a) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.

(b) that the financial report of the prior period was audited by the predecessor auditor, the type of opinion expressed, the reasons if the opinion was modified and the date of the report;

(c) that the auditor's opinion on a prior period financial report differs from the opinion the auditor previously expressed;

~~(d) that the prior period financial report was not audited and the corresponding figures are unaudited; or~~

~~(e) a material inconsistency in a document containing the financial report.~~

ASA 706 contains the requirements and guidance regarding when another matter paragraph is necessary in the auditor's report and the ATO approved auditor's report contains the required wording.~~.~~

~~264.~~256. A qualified opinion may be issued for a SMSF where the financial report is materially misstated or there is an inability to obtain sufficient appropriate evidence which is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. The auditor's inability to obtain sufficient appropriate audit evidence may arise from circumstances beyond the control of the entity, circumstances relating to the nature or timing of the auditor's work or limitations imposed by management. Examples of circumstances beyond the control of the entity include when the entity's accounting records have been destroyed~~ or the accounting records of a significant component have been seized indefinitely by governmental authorities~~. A qualified opinion is expressed as being "except for" the effects of the matter to which the qualification relates. The opinion paragraph is headed "Qualified Opinion".

~~265.~~257. A disclaimer of opinion is expressed when the possible effect of an inability to obtain sufficient appropriate evidence is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an

[127] The ATO approved form auditor's report can be found on the ATO's website www.ato.gov.au/Superfunds form NAT 11466.

opinion on the financial report. In these circumstances, the opinion paragraph is headed "Disclaimer of Opinion".

~~266.~~258. An adverse opinion is expressed when the effect of the misstatement 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 Opinion".

~~267.~~259. Whenever the auditor expresses an opinion that is other than unmodified, a clear description of all the substantive reasons is included in the auditor's report and, unless impracticable, a quantification of the possible effect 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

~~268.~~260. Under ASA 260, the auditor communicates 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 initially discusses with the trustees and/or management those matters arising from an audit that are causing concern, including expected modifications, if any, to the auditor's report. This provides the trustees with an opportunity to clarify facts and issues and to provide further information.

~~269.~~261. The auditor is also required under ASA 260 to inform the trustees of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the auditor during the audit that were determined to be immaterial, both individually and in the aggregate, to the financial report taken as a whole.

~~270.~~262. Under ASA 260, the communication may be made orally or in writing, however, to meet the documentation requirements of ASA 230, the matters communicated and any responses need to be documented in the working papers. Oral communications may need to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.

~~271.~~263. Under ASA 265, the auditor communicates deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.

~~272.~~264. Under ASA 250, any non-compliance which the auditor considers to be intentional and material, is communicated to the trustees without delay. The auditor's statutory reporting responsibilities in relation to matters of non-compliance may also necessitate reporting of such matters to the trustees and the ATO under section 129 of the SISA (see paragraphs 359-366).~~[128]~~

~~[128] Reporting under section 129 of the SISA is discussed in paragraphs 370 to 377.~~

PART B – COMPLIANCE ENGAGEMENT

~~273.~~265. The compliance engagement of a SMSF is driven by the provisions of the SISA and SISR specified 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) investment considerations;

(d) benefits restrictions;

(e) contributions restrictions;

(f) investment returns;

(g) solvency; and

(h) other regulatory information.

~~274.~~266. The specific criteria and corresponding provisions of the SISA and SISR which are required to be reported on in the auditor's report and the ACR under each of these categories are listed in Table 1 below. From time to time, the SISA, SISR and the approved form auditor's report may be amended and new Tax Rulings and Interpretive Decisions may be issued by the ATO. In these circumstances, the auditor will need to adapt the approach in this Guidance Statement to address changes to the compliance criteria.

~~275.~~267. The auditor may use a checklist as an aid in conducting and documenting the compliance engagement. Standardised checklists are available from a number of professional organisations. Auditors verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions as the Independent Auditor's Report is updated annually.[129] ~~and from the ATO, which is contained in *Guide for SMSF auditors – Approved auditors of self-managed super funds role and responsibilities*.~~[130]

Table 1: Summary of Criteria for Compliance Engagement

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

Category	Specific Criteria	Auditor's Report[131] Part B SISA/SISR	ACR[132] SISA/SISR
Establishment and operation of the SMSF	Meets the definition of a SMSF.	S.17A	S.17A
	Trustees are not disqualified persons.	S.126K	S.126K
	Maintains minutes and records for ~~specified time periods~~at least 10 years.	S.103	S.103
	Maintains trustees' declarations ~~regarding~~ about understanding their duties for those who become trustees	S.104A	S.104A

[129] The ATO's electronic superannuation audit tool (eSAT), may provide assistance and is available on the ATO website (www.ato.gov.au/eSAT).

~~[130] The ATO's compliance checklist is included in section 5 of the ATO publication *Guide for SMSF auditors – Approved auditors of self-managed super funds role and responsibilities* (NAT 11375) which can be found at www.ato.gov.au/Superfunds. Practitioners are advised to verify the completeness of the ATO's compliance checklist as it is updated from time to time, whereas the Independent Auditor's Report is updated annually. In addition, the ATO's electronic SMSF audit tool (eSAT), for use in conducting compliance engagements, is available on the ATO website (www.ato.gov.au/eSAT).~~

[131] Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July ~~2012~~ 2014 (NAT 11466).

[132] Auditor-actuary contravention report (ACR) (NAT 11239) available through the ATO's website on-line only.

Category	Specific Criteria	Auditor's Report[131] Part B SISA/SISR	ACR[132] SISA/SISR
	for the first time after 30 June 2007, kept for as long as relevant or at least for 10 years.~~.~~		
	Maintains up to date records of all trustee changes, and copies of consent to act for a period of at least 10 years.	S.104[133]	
	Maintains copies of all member or beneficiary reports for a minimum of 10 years.	S.105[134]	
	Proper accounting records kept and retained for at least 5 years.	S.35AE	-
	Annual financial report prepared, signed and retained for 5 years.	S.35B	-
	Trustee provides auditor documents within 14 days of written request.	S.35C(2)	S.35C(2)
	Trustees formulate, review regularly and give effect to an investment strategy.	R.4.09	R.4.09
Sole purpose	Established for the sole purpose of funding a member's benefits for retirement, attainment of a certain age, death, ill-health or termination of employment.	S.62	S.62
Investment considerations	Restrictions on investments in collectables and personal use assets	R.13.18AA~~[135]~~	R.13.18AA
	Restrictions on acquiring or holding "in-house" assets.	~~Ss.69-71E; Ss.73-75;~~ Ss.~~80~~82-85	Ss.82~~, S.83, S.84 & S~~.85
	Restrictions on acquisitions of assets from related parties.	S.66	S.66
	Maintains arm's length investments.	S.109	S.109
	Maintains SMSF money and other assets separate from those of the trustees, employer-sponsors and other related parties.	~~S.52(2)(d)[136]~~ R.4.09A~~[137]~~	S.52B(2)(d) or R.4.09A
	Prohibition on lending or providing financial assistance to member or relative.	S.65	S.65
	Restrictions on borrowings.	S.67, S.67A, S.67B~~[138]~~	S.67
	Prohibition on charges over SMSF assets.	R.13.14	R.13.14
	Assets valued at market value	R.8.02B~~[139]~~	~~-~~ R.8.02B

[133] Section 104 of the SISA is a requirement that was included in the approved form auditor's report for the periods commencing on or after 1 July 2014, but was not included in the approved form auditor's report for the previous period.

[134] Section 105 of the SISA is a requirement that was included in the approved form auditor's report for the periods commencing on or after 1 July 2014, but was not included in the approved form auditor's report for the previous period.

~~[135] Regulation 13.18AA of the SISR is a requirement that was included in the approved form auditor's report for the periods ending on or after 30 June 2012, but was not included in the approved form auditor's report for the previous period.~~

~~[136] From 1 July 2013 this is now section 52B(2)(d) of the SISA.~~

~~[137] Regulation 4.09A of the SISR commenced 7 August 2012 and is a requirement which is included in the approved form auditor's report for periods ending on or after 30 June 2013.~~

~~[138] Sections 67A and 67B of the SISA are requirements which were included in the approved form auditor's report for periods ending on or after 30 June 2012, but were not included in the approved form auditor's report for the previous period.~~

~~[139] Regulation 9.02B of the SISR commenced 7 August 2012 and is a requirement which is included in the approved form auditor's report for periods ending on or after 30 June 2013.~~

Category	**Specific Criteria**	**Auditor's Report Part B SISA/SISR**	**ACR SISA/SISR**
Benefits restrictions	Trustees maintain members' minimum benefits.	R.5.08	R.5.08
	Minimum pension amount to be paid annually.	R.1.06(9A)	-
	Restrictions on payment of benefits.	R.6.17	R.6.17
	Prohibition on assignment of members' superannuation interest.	R.13.12	-
	Prohibition on creating charges over members' benefits.	R.13.13	-
Contributions restrictions	Accepts contributions within specified restrictions.	R.7.04	R.7.04
Investment returns	Reserves to be used appropriately and investment returns *must* be allocated to members' accounts in a manner that is fair and reasonable.	R. 5.03	-
Solvency	Unsatisfactory financial position.	-	S.130[140]
Other regulatory information	Information regarding the SMSF or trustees which may assist the ATO, including compliance with other relevant SISA sections and SISR regulations.	-	S.130A[141]

Materiality

268. In planning and performing the compliance engagement, ASAE 3100 requires the auditor to consider materiality and compliance engagement risk. In assessing materiality, the auditor considers qualitative and quantitative factors. ~~including:~~

269. In determining whether a contravention identified is material, and therefore whether a modification to the auditor's report is warranted, the auditor considers ~~the factors in paragraph 273 as well as~~ factors such as:

- The value of the breach.
- The time taken to rectify the breach, or if not yet rectified, the trustees' proposed actions and timeline for rectification.
- Whether the auditor has previously reported a similar breach to the trustee.
- The extent to which a limit has been exceeded or a statutory deadline missed.
- Whether the breach was intentional.

~~276.~~

- Potential damage to members of a breach of the SISA or SISR occurring.
- ~~Whether disclosure of a breach would influence members', trustees' or the ATO's perceptions or decisions, including whether the breach would be reportable in an ACR.~~
- ~~Potential monetary value of increased tax resulting from a breach.~~
- ~~Potential monetary value or severity of any penalties.~~

140 Unsatisfactory financial position is reported separately from other contraventions in Section F of the ACR and the seven tests set out in the ACR instructions are not applicable. Also see Reg 9.04 of the SISR for the narrow definition of "unsatisfactory financial position."

141 Other regulatory information is reported separately from other contraventions in Section G of the ACR and the seven tests set out in the ACR instructions are not applicable.

- ~~Whether there are any arm's length members, such as members who are subject to a legal disability.~~

Establishment and Operation of the SMSF

~~277.~~270. 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;

(b) the trustees are not disqualified persons;

(c) the SMSF's minutes and records are retained for ~~the prescribed periods~~at least 10 years;

(d) the SMSF has and retains trustee declarations of duties signed by any new trustees after 30 June 2007 for at least 10 years;

(e) the SMSF's accounting records are kept and retained for five years;

(f) annual financial reports have been prepared for the SMSF, either signed by two individual trustees, two directors of the corporate trustee or the sole director of the corporate trustee, and retained for five years along with the SMSF's accounts;

(g) the SMSF has not entered into any contract or act that may prevent or hinder the trustees from properly performing or exercising their powers and functions; and

(h) an investment strategy which takes into account the risk, diversification, cash flows and liquidity of the SMSF has been formulated, given effect and reviewed regularly. The investment strategy must also consider if insurance is relevant to the members of the fund.

In addition, the auditor can expect the trustees to provide documents within 14 days that are requested in writing and are relevant to the preparation of the auditor's report, as required under the SISA.[142]

Definition of SMSF

~~278.~~271. To determine if the SMSF meets the definition of a SMSF,[143] the auditor may conduct procedures including:

- Examination of the fund's governing rules, member applications and minutes of trustees' meetings to identify the members and trustees and that they comply with the relevant legislation.
- A company search to ascertain if the directorship of the trustee company is consistent with the requirements of section 17A of the SISA.
- Enquiry to identify members, employers and trustees and their relationships with one another.
- Testing SMSF payments to ensure no payments have been made to the trustees for duties or services to the SMSF in their capacity as trustee. Section 17B of the SISA allows situations whereby a trustee and director of corporate trustees may be remunerated for their non-trustee duties or services.

[142] See ~~s~~Subsection 35C(2) of the SISA.
[143] The definition of a SMSF is in section 17A of the SISA. Also refer to SMSFR 2010/2. The scope and operation of subparagraph 17(A)(3)(b)(ii) of the SISA and ATO ID 2010/139 Subparagraph 17(A)(3)(b)(i) of the SISA – tribunal appointed administrator of the plenary estate of a person with a mental disability.

- Obtaining trustee representations.

Disqualified Persons

~~279.~~272. An individual SMSF trustee is disqualified under the SISA[144] if they are:

(a) convicted of an offence in respect of dishonest conduct;

(b) the subject of a civil penalty order;

(c) an insolvent under administration (includes an undischarged bankrupt under the *Bankruptcy Act 1966*); or

(d) disqualified by the ATO.

~~280.~~273. A corporate trustee is disqualified if:

(a) ~~the~~ a responsible officer is a disqualified person; or

(b) the company is in receivership, administration, provisional liquidation or has begun winding-up proceedings.

~~281.~~274. Ordinarily, the auditor verifies that the trustees are not disqualified by obtaining trustee representations to that effect. 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 the trustee's details against APRA's disqualification register,[145] the National Personal Insolvency Index listing bankrupts, ASIC Company Register for Company Status or other commercial databases providing record search facilities.

Maintenance and Provision of SMSF Records

~~282.~~275. The auditor obtains representations from the trustees that the minutes and records of meetings have been held for at least 10 years ~~(or from SMSF inception for funds under 10 years old)~~, that accounting records and financial reports have been retained for 5 years ~~(or from SMSF inception for funds under 5 years old)~~ , that member or beneficiary reports have been retained for at least ten years, and that records of all changes to the fund trustee are up to date and for~~and~~ trustees appointed after 30 June 2007 , they have signed and retained a "Trustee Declaration". for at least ten years.[146]

~~283. The auditor examines the company secretarial records (for a corporate trustee) or SMSF records provided by the trustee or administrator to corroborate the trustees' representations regarding retention of records.~~

~~284.~~276. The SISA requires that the records be kept in the English language or a form that is readily convertible to English.[147] and be kept in Australia (or another country if the Regulator gives approval for the records to be kept in another country). Generally, investment documentation in a foreign language, required as audit evidence, is translated at the SMSF's expense into English. This facilitates more efficient and effective auditing and quality control.

~~285.~~277. The auditor may request that the trustees provide documents ~~from the trustees~~ required to conduct the audit. If the trustees fails to provide the documents required within the specified time period, this is a compliance breach which, if material, ~~the auditor reports in the~~

[144] See s~~S~~ubsection 120(1) of the SISA. Also refer to ATO ID 2011/24 *Waiver of disqualified person status – meaning of 'serious dishonest conduct'*.

[145] The ATO does not publish a trustee disqualification register, however as APRA was the regulator of SMSFs prior to the ATO, APRA's register reflects disqualifications imposed when APRA regulated SMSFs.

[146] The *Trustee Declaration* is an approved form issued by the ATO (NAT 71089), available from the ATO's website at www.ato.gov.au.

[147] See s~~S~~ection 35A of the SISA.

~~compliance report~~should result in a qualified auditor's report provided a written request was made under section 35C (2) of SISA and the documents were not supplied within 14 days. ATO reporting is also required if the information has not been provided to the auditor within 28 days of the auditor's request for the information.

Contracts Restricting Trustees' Functions and Powers

~~286.~~278. The auditor considers contracts entered into on behalf of the SMSF, the governing rules and any other arrangements in the light of the SISA's prohibition on entering a contract or doing anything which prevents the trustees from, or hinders the trustees in, properly performing or exercising their functions and powers.[148] The auditor may obtain representations from the trustees that no such arrangement has been entered into.

Investment Strategy

~~287.~~279. In the approved form auditor's report the auditor states that their procedures "included testing that the fund trustee has an investment strategy, that the trustee has given consideration to risk, return, liquidity, diversification, the insurance needs of the fund members, and that the fund's investments are made in line with that investment strategy". The SISR[149] requires the trustees of a SMSF to formulate, regularly review 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.
- Whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

~~288.~~280. Ordinarily the investment strategy is documented in writing and the auditor assesses that the trustees have properly considered all the circumstances of the SMSF, however the auditor is not required to assess whether the investment strategy is adequate to meet the long term investment needs of the SMSF and the auditor states in their report that "no opinion is made on the investment strategy or its appropriateness to the fund members".

~~289. For defined benefit funds, liquidity is of particular concern as members' benefits are not based on the SMSF's return on investments, so the auditor conducts additional procedures to test whether the trustee has properly considered liquidity, having regard to expected cash flow requirements necessary to fund liabilities, particularly benefit payments.~~[150]

~~290.~~281. In order to determine whether the trustees have given effect to the investment strategy, the auditor assesses whether the investments made during the period are invested according to the documented investment strategy as approved by the trustees. The auditor obtains evidence as to 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.

148 See ~~s~~Section 52(2)(e) of the SISA.
149 See ~~r~~Regulation 4.09 of the SISR.
~~150 Going concern, including liquidity issues, for defined benefit funds are discussed in paragraphs 241 to 249 of this Guidance Statement.~~

~~291.~~282. The frequency that a trustee should review the fund's investment strategy in order to satisfy the requirements of Regulation 4.09 of the SISR is not specified, and it is the role of the trustee to determine what is appropriate to meet the requirement. The expectation from the ATO is that this would be at least annually. The role of the auditor is to use professional judgement in determining if this requirement has been met.

Sole Purpose

~~292.~~283. The SISA[151] requires the trustees to ensure that the SMSF is maintained solely for one or more of the allowable core purposes and, in addition, may also be maintained for one or more of the allowable ancillary purposes. The allowable core purposes are the provision of benefits for each member on their retirement, attainment of a prescribed age or death prior to retirement or attaining the prescribed age. The allowable ancillary purposes are the provision of benefits for each member on termination of employment, cessation of work due to ill-health, death after retirement or attainment of a prescribed age, or a benefit approved by the ATO. The "sole purpose test" is a conceptual test that when satisfied demonstrates that the SMSF has in fact been maintained solely for the allowable purposes and requires a higher standard than maintenance of the SMSF for a dominant or principal purpose. The approved form auditor's report, ~~in Appendix 3 of this Guidance Statement,~~ requires the auditor to separately state that their procedures "included testing that the fund's governing rules establishes the fund solely for the provision of retirement benefits for fund members or their dependents in the case of a member's death before retirement".

~~293.~~284. The trustees of a SMSF are required to maintain a SMSF in a manner that complies with the sole purpose test at all times while the SMSF is in existence. This extends to all activities of the SMSF including:

- Accepting contributions.
- Acquiring and investing the SMSF's assets.
- Administering the funds~~ (including maintaining the SMSF's structure)~~.
- Employing and using the SMSF's assets.
- Paying benefits, including those benefits on or after retirement.

~~294.~~285. In assessing whether a SMSF has complied with the sole purpose test, the auditor may refer to the ATO's Ruling SMSFR 2008/2 on the application of the sole purpose test to circumstances where the SMSF is maintained for the purposes prescribed while providing benefits, particularly to members or related parties, other than those specified in section 62 of the SISA. SMSFR 2008/2 states that a SMSF may still satisfy the sole purpose test despite the provision of benefits not specified in section 62, if the benefits are "incidental, remote or insignificant". In order to determine whether the benefits are incidental, remote or insignificant, the circumstances surrounding the SMSF's maintenance need to be viewed "holistically and objectively".

~~295.~~286. In assuring compliance with the sole purpose test, the auditor looks for the provision of current day benefits, being benefits to a member or related party before the member's retirement, employment termination or death, and assesses whether those benefits fail the sole purpose test. ~~An asset of a SMSF which provides current day benefits to a related party is generally an "in-house" asset and, even if it does not breach the sole purpose test, it still cannot exceed, in combination with other in-house assets, the restriction on the value of in-house assets which may be held by the SMSF. ~~Furthermore, the SISR[152] contains strict regulations in relation to collectables and personal use assets. In-house assets are discussed

[151] See s~~S~~ection 62 of the SISA.
[152] See r~~R~~egulation 13.18AA of the SISR.

further in paragraphs ~~309~~ 299 to ~~312~~301, while collectables and personal use assets are discussed further in paragraphs ~~304~~ 295 to ~~308~~298.

~~296.~~287. Current day benefits are likely to fail the sole purpose test if the benefit:

- Was negotiated or sought out by the trustees.
- Has influenced the decision making of the trustees.
- Has been provided at a cost or financial detriment to the SMSF.
- Is part of a pattern or preponderance of events which, when viewed in their entirety, amount to a material benefit being provided that is not specified under section 62(1).

~~297.~~288. Current day benefits are more likely to comply with the sole purpose test if:

- The benefit is an inherent and unavoidable part of activities for allowable purposes.
- The benefit is remote, isolated or insignificant.
- The benefit is provided on arm's length commercial terms, at no cost or financial detriment to the SMSF.~~[153]~~
- The trustees comply with the covenants in section 52B of the SISA.
- The benefit relates to activities which are part of a properly considered and formulated investment strategy.

~~298.~~289. The sole purpose test is complemented by other restrictions in SISA relating to dealings with members and related parties, such as prohibitions or restrictions on:

- Transactions not at arm's length.[154]
- ~~Borrowings.~~~~[155]~~
- Loans or financial assistance to members or relatives.[156]
- Acquisitions from related parties.[157]
- Charges over assets.[158]
- Assignment of, or charges over, member's benefits.[159]
- SMSF assets not held separately from the members' personal assets.[160]
- Acquisition of "in-house" assets in excess of 5% of the total market value of the SMSF assets.[161]
- Collectables and personal use assets.[162]

~~153 SMSFD 2010/1 provides guidance where a fund purchases trauma insurance for a member and considerations for compliance with s62 section 62 of the SISA.~~
154 See ~~s~~Section 109 of the SISA.
~~155 Section 67 of the SISA.~~
156 See ~~s~~Section 65 of the SISA.
157 See ~~s~~Section 66 of the SISA.
158 See ~~r~~Regulation 13.14 of the SISR.
159 See ~~r~~Regulations 13.12 and 13.13 of the SISR.
160 See ~~s~~Section 52B(2)(d) of the SISA and SISR regulation 4.09A of the SISR.
161 See ~~p~~Part 8 of the SISA.
162 See ~~r~~Regulation 13.18AA of the SISR.

Breaches of one or more of these restrictions ~~may be~~are usually indicative of circumstances establishing a breach of the sole purpose test.

Running a Business

~~299.~~290. The auditor remains alert to circumstances which indicate that the SMSF is running a business or conducting operations which may be akin to running a business, as this activity may breach the sole purpose test. Indications that a business is being conducted by the SMSF may include revenues from trading activities, employing staff and paying operating expenses. A business is not usually administered for the sole purpose of providing the allowable benefits to members or beneficiaries of the SMSF, as there is an inherent risk that running a business may jeopardise the member's benefits.[163] Although the operation of a business is not prohibited by the SIS, specific additional obligations need to be met by the fund to ensure on-going SIS compliance.

~~300.~~291. ~~In addition, running a business may breach other restrictions. Running the business may not be consistent with the SMSF's investment strategy. Many businesses routinely borrow to provide working capital and purchase goods on credit, which prima facie breach the borrowing restrictions,~~[164] ~~discussed further below.~~ If a trustee is also an employee of the business, payment of salary or wages to the trustee ~~may be construed as remuneration to the trustee for the duties or services performed by the trustee in relation to the SMSF, which is a breach of the definition of SMSF under the SISA.~~[165] must be on an arms-length basis. The auditor assesses all circumstances of a SMSF running a business to determine whether it is in breach of the SISA or SISR. It is also essential to ensure that the deed of the fund permits the trustee to operate a business.

~~301.~~292. SMSFs that engage in high volume trading of derivatives, listed securities, real property or other investments or a series of property developments may be running a business for purposes other than solely for providing specified benefits to members and beneficiaries. For SMSFs conducting activities of this kind, the auditor considers whether the activities are justified in giving effect to the investment strategy.

Units in a Related Unit Trust

~~302.~~293. 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 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 allowable benefits to members and not to provide other benefits to the trustees, members or their relatives. The auditor ~~will~~ may also need to consider whether the investment breaches the prohibition on acquisitions from related parties, the prohibition on borrowings or exceeds the "in-house" asset limits[166]. SIS obligations vary depending on the date the fund invested and whether the investment falls under the exception in Division 13.3A of the SISR.

Investment Considerations

~~303.~~294. The SISA contains a number of investment restrictions 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 SISA.

[163] Also refer to SMSFR 2008/2: *The application of the sole purpose test in section 62 of the SISA to the provision of benefits other than retirement, employment termination or death benefits.*
~~[164] Section 67 of the SISA.~~
~~[165] Section 17A of the SISA.~~
[166] See paragraphs 309-312.

Collectables and personal use assets

~~304.~~295. Collectables and personal use assets under the SISA and SISR are permitted investments for SMSFs provided the asset was not acquired to provide a personal benefit for the member ~~and other~~or their related parties ~~do not receive any personal enjoyment~~. Collectables or personal use assets[167] that are acquired by the fund on or after 1 July 2011 are subject to restrictions[168] contained in the regulation 13.18AA of the SISR including:

- Must not be leased to any related party[169] of the fund.
- Must not be stored or displayed in the private residence of any related party of the fund.
- Cannot be used by any related party of the fund.
- Trustees are required to make a written record of the reasons for the decisions on where to store the collectables and personal use assets and keep the record for 10 years.
- Insured in the name of the fund within seven days of acquisition.
- ~~Cannot be used by any related party of the fund.~~
- Transfers of ownership to related parties must be done at market value[170] determined by a qualified independent valuer.[171]

~~Detailed examples of SMSFs investments in collectables and personal use assets are contained within the ATO's *Collectables and personal use assets – questions and answers*.~~The auditor obtains sufficient appropriate audit evidence that the restrictions on collectable and personal use assets have been complied with.

~~305.~~296. Membership investments, such as ski lodge, country club or golf club memberships, providing a right to use a facility or service, will usually fail the sole purpose test if the trustees or members derive a current day benefit from the investment. Furthermore, the SISR prohibits these lifestyle assets from being used by the member or related party of the fund.[172] The auditor may refer to the examples in ATO Ruling SMSFR 2008/02 to assist them in assessing whether or not an investment in a lifestyle asset is a breach of the SISA and SISR.

~~306. Investments in broadly held schemes or arrangements to develop and sell recreational property may be permitted, if there is no residual entitlement to utilise the facilities, or otherwise enjoy the benefits of the development and where the scheme does not involve running a business.~~

~~307.~~297. Investments in holiday houses or apartments need to be reviewed to ascertain if there has been ~~justifiable as a legitimate part of the SMSF's investment strategy, and the accommodation is required to be rented out, or be made available for rent at commercial rates. U~~use or enjoyment of the property by the trustees, members or a related party as this is a strong indication that the sole purpose test ~~may have~~has been breached and may also render the investment an "in-house" asset,[173] in which case the in-house asset limits will apply. Furthermore, the SISR prohibits the use of such investments by members and related parties of the fund.[174]

[167] Collectables and personal use asset list contained in Regulation 13.18AA(1) of the SISR.
[168] Restrictions are subject to transitional arrangements. Collectables and personal use assets held by funds prior to 30 June 2011 are not subject to restrictions until 1 July 2016, at which time, trustees will be required to comply with all restrictions. This transitional period provides SMSF trustees with existing investments in collectables and personal use assets time to comply with the rules.
[169] Related party is defined in Section 10(1) of the SISA.
[170] Market value is defined in Section 10(1) of the SISA.
[171] ~~Refer~~ See ATO's Valuation guidelines for self-managed superannuation fund (web-based).
[172] See r~~R~~egulation 13.18AA(6) of the SISR.
[173] See g~~G~~uidance on "in-house" assets is provided in paragraphs ~~309~~ 299 to ~~312~~ 301 of this Guidance Statement.
[174] See r~~R~~egulation 13.18AA(6) of the SISR.

~~308.~~298. Generally, investments that provide an ancillary benefit as part of the investment need to be examined to determine 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, upgrades or free products or services.

"In-house Assets"

~~309.~~299. An "in-house" asset of a SMSF is an asset that is ~~loaned~~ a loan to a related party, an investment in a related party, an investment in a related trust or an asset of the SMSF subject to a lease between the trustees and a related party of the SMSF.[175] A related trust is a trust that a member or employer-sponsor controls.[176] There are a number of exceptions to the definition of in-house assets and transitional provisions included in Part 8 of the SISA.[177] The auditor needs to be familiar with these exceptions when considering in-house asset requirements.

~~310.~~300. The SISA has strict limits on the level of "in-house assets" permitted to be held by the SMSF. The market value of the in-house asset *must* not exceed 5% of the total market value of the SMSF's assets at the time of acquisition[178] and at year end.[179] Also the trustees are prohibited from acquiring an in-house asset that would cause the total of all in-house assets to exceed this 5% ratio. The auditor examines the investments of the SMSF to identify potential in-house assets to ensure that the legislative limits are not exceeded either when they were acquired or at year end.

~~311. If a SMSF invests in in-house assets but does not account for its investments at market value, the auditor obtains market values in order to ascertain whether a breach has occurred.~~

~~312.~~301. The auditor remains alert to schemes intentionally entered into or carried out by the trustees which have the effect of artificially reducing the market value ratio of the SMSF's in-house assets. Such actions are prohibited under the SISA.[180]

Acquisition of Assets from Related Parties

~~313.~~302. Trustees and investment managers are prohibited, under the SISA,[181] from acquiring assets from a related party unless the assets are acquired at market value and are either:

(a) listed securities;

(b) business real property;

(c) in-house assets within the 5% ratio limit;

(d) life insurance policies that are not acquired from a member or relative; or

(e) assets which are ordinarily in-house assets but are exempted by the operation of paragraph 71(1) of the SISA; and

(i) the asset is acquired at market value; and

(ii) the acquisition would not result in a breach of the 5% ratio limit.

~~314.~~303. Business real property[182] is land and buildings used wholly and exclusively for business purposes.[183] It does not extend to:

[175] Defined in subsection 10(1) of the SISA. Also refer to SMSFR 2009/4 the meaning of 'asset', 'loan', 'investment in', 'lease' and 'lease arrangement' in the definition of an 'in-house asset' in the SISA.
[176] Defined in subsection 10(1) of the SISA.
[177] See also regulations 13.22B, 13.22C and 13.22D of the SISR. SMSFR 2009/1 is also relevant to the definition of business real property and the exceptions under S71(1) of the SISA.
[178] See s~~S~~ection 83 of the SISA.
[179] See s~~S~~ection 82 of the SISA.
[180] See s~~S~~ection 85 of the SISA.
[181] See s~~S~~ection 66 of the SISA.

(a) vacant land, unless used in primary production;

(b) land used for property development or shares held in an unlisted property owning company; or

(c) residential properties except where the residence provides accommodation that is in the nature of a business (e.g. for a motel); or the residence is on less than two hectares of a larger parcel of land which is predominately used in a ~~forms part of a~~ primary production business~~ and does not exceed two hectares in area or the provision of accommodation is in the nature of a business (e.g. for a motel)~~.

~~315.~~304. Assets which would ordinarily be defined as in-house assets but which are exempt under the provisions of paragraph 71(1) of the SISA include deposits with an approved deposit institution, an investment in a pooled superannuation trust where the trustee has acted on an arm's length basis, an asset which the regulator has determined is not an in-house asset, an investment in a widely held unit trust, and non-geared unit trusts which meet the other requirements of the SISR.[184]

~~316.~~305. Ordinarily, the auditor examines the documentation surrounding the purchase of material investments, ~~other than those which fall into one of the exceptions above,~~ 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. The auditor makes enquiries in the planning phase of the audit in order to identify ~~related~~ parties, whether individuals or entities related to the trustees or members.

Arm's Length Investments

~~317.~~306. The SISA[185] requires the trustees and investment managers to invest and maintain the SMSF's assets at arm's length. Indicators of non-arm's length investments may include:

- Investments in a related party.
- Investments being managed by a related party.
- Details of parties to a contract indicate related parties.
- Uncommercial or disadvantageous terms of a lease or loan.
- Acquisition or disposals of SMSF assets that do not appear to be at commercial rates.
-
- 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.
- Investments which are inconsistent with the investment strategy or entered into without a sound rationale.

~~318.~~307. 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 in accordance with section 109 of the SISA. The SISA[186] requires that

[182] Defined in subsection 66(5) of the SISA. Refer to SMSFR 2010/1 for the application of subsection 66(1) of the SISA to the acquisition of an asset by a SMSF from a related party.

[183] See~~Refer to~~ SMSFR 2009/1 *Business real property for the purposes of the SISA.*

[184] See r~~R~~egulation 13.22A - 13.22D of the SISR

[185] See s~~S~~ection 109 of the SISA.

[186] See s~~S~~ection 109(1)(b) of the SISA.

the terms and conditions of a transaction must not be more favourable to the other party than would be reasonably expected if the parties were at arms-length. ATO ID 2010/162 clarifies that there is no contravention of section 109 of the SISA if the terms are more favourable to the SMSF. However, if the terms are more favourable to the SMSF the asset and associated income will be treated as non-arm's length, resulting in the income (less associated expenses) being taxed as non-arm's length income, and the asset disposal being treated as a non-arm's length disposal.

Assets Held Separately

~~319.~~308. The trustees are required[187] to keep the money and the assets of the SMSF separate from their personal or business assets of the trustees and from the assets of standard employer-sponsors. The auditor examines the affairs of the SMSF to identify possible situations where the assets of the SMSF may have become intermingled with assets of the trustees or standard employer-sponsors. The auditor checks that the assets of the SMSF are registered in the SMSF's name or, where assets cannot be held directly by the SMSF (for example in some jurisdictions, a property title may not be able to be held in the name of the fund), there is other clear evidence that those assets are held beneficially on behalf of the SMSF, such as a declaration of trust or ~~a declaration~~an acknowledgement of trust.

~~320.~~309. Where there has been a change in trustees, the auditor generally checks that the ownership documents for fund assets have been updated.

~~321.~~310. The auditor confirms that the SMSF maintains a separate bank account for all fund monies and examines payments and receipts to ascertain that dividends, interest and other income of the SMSF are not banked into personal or business accounts, particularly where a corporate trustee operates a number of bank accounts as well as conducting the affairs of the SMSF. The auditor may test that dividends declared for listed securities held are received and banked by the SMSF.

Loans and Financial Assistance to Members or their Relatives

~~322.~~311. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives[188] and the approved form auditor's report states that the auditor procedures included "a review of investments to ensure the fund is not providing financial assistance to members, unless allowed under the legislation". The auditor examines the bank account and obtains explanations for material withdrawals and deposits in order to ascertain whether any loan or financial assistance benefit has been provided to a trustee, member or relative of a member or trustee. In certain circumstances, access by members or their relatives to SMSF funds may be considered to be an early access to benefits without meeting a condition of release.[189]

~~323.~~312. In cases where funds are accessed in error by the trustees for non-SMSF use, the breach may affect the audit opinion, unless the amount is immaterial, the event is infrequent and repayment is made in full. Interest at commercial rates may also be appropriate.

~~324.~~313. The auditor 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's or relative's borrowings, which would be a form of financial assistance. This may require performing a title search for the SMSF's real property to identify any encumbrances.

187 ~~Subsection 52(2)(d) of the SISA (which is replaced by~~See subsection 52B(2)(d)~~ for periods commencing 1 July 2013)~~of the SISA, and Regulation 4.09A of the SISR.
188 See ~~s~~Section 65 of the SISA. Also refer to SMSFR 2008/1 *Giving financial assistance using the resources of a SMSF to a member or relative of a member that is prohibited for the purposes of section 65(1)(b) of the SISA.*
189 Determining whether benefits have been accessed prior to meeting a condition of release is a question of fact and any penalty is at the discretion of the ATO.

Borrowings

~~325.~~314. SMSFs are not permitted to borrow money,[190] with the exceptions[191] of borrowings:

(a) to pay a benefit, pension or superannuation contribution surcharge liability (no longer levied), for a maximum of 90 days for up to 10% of the value 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 value of the SMSF's assets provided that, at the time the relevant investment decision was made, it was likely that the borrowing would not be needed; or

(c) that are part of a limited recourse borrowing arrangement.[192]

~~326.~~315. Ordinarily, the auditor 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.

~~327.~~316. 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 SISA and SISR 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. If the SMSF is involved in trading of securities or derivatives, the auditor examines related documentation for indications of the existence of margin lending arrangements, such as interest payments on broker's statements, margin call payments or significant listed securities purchases without corresponding payments.

317. The auditor reviews any investments in derivatives, including options, futures, 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, may 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 may be construed as running a business and, consequently, may be a breach of the sole purpose test.

~~328.~~318. Where the SMSF has derivative instruments, the auditor obtains the derivative risk statement prepared by the trustees and considers whether it complies with regulation 13.15A of the SISR.

~~329.~~319. Investments in limited recourse borrowing arrangements are an exception to the prohibition on borrowings. Limited recourse borrowing arrangements are complex financial arrangements whereby the SMSF buys an asset via a limited recourse 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. The SMSF may be required to make regular instalments or repayments. Recourse by the lender, against the fund trustee, in the case of failure to settle the loan, is required to be solely over, and limited to, the asset held in the trust arrangement. After commencing the borrowing, the SMSF is required to make at least one 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.

[190] See s~~S~~ection 67(1) of the SISA. Also refer to SMSFR 2009/2 *The meaning of "borrow money" or "maintain an existing borrowing of money" for the purposes of section 67 of the SISA.*
[191] See s~~S~~ections 67 and 67(A) of the SISA.
[192] ~~Refer to~~See ATO Ruling SMSFR 2012/1 *Self-Managed Superannuation Funds: limited recourse borrowing arrangements – application of key concepts* (SMSFR 2012/1).

~~330.~~320. From 24 September 2007, superannuation funds were allowed to invest in certain limited recourse borrowing arrangements involving borrowing money to acquire a permitted asset. Those arrangements need to meet the conditions stipulated by the law in the former subsection 67(4A) of the SISA. Those rules continue to apply to limited recourse borrowing arrangements that were entered into before 7 July 2010.

~~331.~~321. For limited recourse borrowing arrangements[193] entered into by superannuation funds on or after 7 July 2010 or previous section 67(4A) debt arrangements that have been refinanced after 7 July 2010:

(a) the asset within the arrangement can only be replaced by a different asset[194] in very limited circumstances specified in the law;

(b) superannuation fund trustees cannot borrow to improve an asset[195] (for example, real property);

(c) the borrowing is permitted only over a single asset or a collection of identical assets that have the same market value;

(d) the asset within the arrangement is not subject to a charge other than to the lender in respect of the borrowing by the superannuation fund trustee.[196]

~~332.~~322. Procedures which the auditor may conduct in auditing compliance of limited recourse borrowing arrangements with the SISA and SISR may include:

- Examination of the fund's governing rules to determine if the SMSF is permitted to borrow.
- Examination of the investment strategy, or discussions with the trustees if there is no written investment strategy, to determine if limited recourse borrowing arrangements and the percentage of funds devoted to them are allowed within that strategy.
- Identification of the nature of the asset purchased and whether the vendor is a related party so as to ensure that the transaction is permitted under the SISA, SISR and the fund's governing rules.
- Determination of whether the debt arrangement or loan agreement is a non-recourse agreement as required by the SISA,[197] 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, such as a family trust, in order to identify any potential non arm's length dealings.
- Determination of whether the funds borrowed were used to purchase an asset held in the limited recourse borrowing arrangement.
- Determination of whether the funds borrowed has been used to improve an asset.
- 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.

193 See s~~S~~ections 67A and 67B of the SISA.
194 Table 2 in ATO ruling SMSFR 2012/1 provides illustrative guidance as to whether a change to a single acquirable asset results in a different asset.
195 Table 1 in ATO ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.
196 ~~Refer to~~See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.
197 ~~Subsection~~ See subsection 67A(1) of the SISA.

- 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 limited recourse borrowing arrangements.
- Determination of whether the original asset has been added to in any way, either by additional shares or further purchases, since if the limited recourse borrowing asset has increased, this would indicate a further borrowing and therefore a potential breach of the prohibition on borrowing.
- For limited recourse borrowing arrangements entered into from 1 July 2010, determination of whether:
    - a replacement to the asset has been made contrary to the law;
    - the fund has not borrowed to improve an asset in the arrangement;
    - the trust asset is a single asset or identical assets that have the same value, for e.g. ordinary shares; and
    - there is no charge over the asset except per the limited recourse arrangement.[198]

Charges Over Assets

~~333.~~323. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility[199] and, hence, charges and liens over assets are not permitted. Also, charges and liens over any member benefits are prohibited. ~~Accordingly, the auditor reviews the minutes, correspondence and records of the trustees to identify whether any charges or debt facilities have been applied for or established.~~ Additional audit procedures include review of any bank confirmations for charges, ~~dividend reinvestment options,~~ title searches on properties of the SMSF to identify any charges or liens, the Personal Properties Securities Register for parties registering interests against other SMSF assets and examination of the accounting records or bank statements to identify any interest payments made by the SMSF, which may indicate a loan facility.

~~334.~~324. 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. This may extend to reviewing any product disclosure statement relating to assets acquired to determine whether the product has any recourse to the SMSF. Even if the marketing or summary material claims there is no recourse to the SMSF, the auditor still checks the actual provisions of the arrangement.

~~335.~~325. 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. Where a related unit trust has allowed a charge over its assets or has a borrowing, the investment in the unit trust becomes and remains an in-house asset of the fund~~Any borrowings by the unit trust *must* be in accordance with the SISA and SISR. Certain unit trusts established pre-July 1999 may be subject to transitional legislation that permits borrowings. 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~~.

[198] ~~Refer to~~See ATO SMSFR 2012/1 for further guidance on the requirements for limited recourse borrowing arrangements. Also ~~refer to~~see ATO ID 2010/162, 2010/184 and 2010/185.

[199] See ~~r~~Regulation 13.14 of the SISR. Also ~~refer to~~see ATO IDs 2010/162,~~-~~ 2010/169, 2010/170, 2010/172, 2010/184 , ~~and~~ 2010/185, 2014/39 and 2014/40.

~~336.~~326. Ordinarily, the auditor requests a financial report, the tax return and distribution statements, for investments in unit trusts, to identify income, net 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.

Asset Valuation

~~337.~~327. The trustees are required to value fund assets at market value.[200] See paragraphs ~~165~~ 163 to ~~173~~ 171 for requirements and explanatory guidance on asset valuations.

Benefit Restrictions

~~338.~~328. The member's ability to receive a benefit normally depends on:

(a) the type of benefit the member has accumulated in the SMSF;

(b) the member's age and whether any preservation restrictions apply to the benefit; and

(c) whether the rules of the SMSF permit the benefit to be paid at the time.[201]

Minimum Benefits

~~339.~~329. The trustees are required[202] to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred. ~~For defined benefit funds, the auditor ensures that the minimum benefits have been calculated correctly by reference to the formula provided in the fund's governing rules, the SMSF's records and the actuarial valuation, if appropriate.~~

Payment of Benefits

~~340.~~330. Generally, benefit paymentss~~s~~ are triggered due to a condition of release being met. ~~and~~ T~~t~~he approved form auditor's report states that the auditor's procedures include testing "that no preserved benefits have been paid before a condition of release has been met". Conditions of release are specified in the SISR[203] and may be further restricted by the SMSF's governing rules. Conditions of release include retirement, reaching age 65, death, permanent or temporary incapacity, terminal medical condition, ~~permanent incapacity,~~ attaining the prescribed preservation age for a transition to retirement benefit,[204] severe financial hardship and~~,~~ compassionate grounds which are assessed by the Department of Human Services.~~approved by APRA,~~[205] ~~attaining age 65 or a request to rollover. A condition of release triggers either a lump sum payment or a pension.~~

~~341.~~331. For pension payments, the auditor ensures that any payments meet the minimum and maximum,[206] if required, payment conditions as stipulated in the SISA and SISR and an appropriate condition of release has been met. In particular, funds paying account based pensions are required to pay an annual minimum pension amount[207] which is calculated by applying a percentage rate, dependent on the member's age,[208] at the 1st July of the reporting year being audited, to the member's account balance. A payment made as a result of a partial

[200] See r~~R~~egulation 8.02B of the SISR.
[201] More information is available on the ATO's website ato.gov.au (search under Paying benefits)~~ATO's NAT 74124 *Paying benefits from a self-managed super fund*~~.
[202] See r~~R~~egulation 5.08 of the SISR.
[203] Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.
[204] Members need to reach their preservation age before commencing a transition to retirement benefit. This is age 55 for those born prior to 1 July 1960 and increasing up to age 60 for those born after 1 July 1964.
[205] Under part 6 of the SISA the Chief Executive Medicare has the general administration of SISR regulations about the release of superannuation on compassionate grounds.~~The Commissioner of Taxation delegated the authority as regulator with respect to approval of compassionate reasons to APRA.~~
[206] Maximum payments exist for transition to retirement income streams.
[207] See s~~S~~ubregulation 1.06(9A)(a) of the SISR.
[208] See s~~S~~chedule 7 of the SISR.

commutation[209] of an account based pension (~~not~~ including a transition to retirement income stream[210]) counts towards the minimum annual amount ~~unless the payment is rolled over~~. A payment made as a result of a full commutation cannot count towards the minimum annual amount as the account based pension ceases before payment is made.[211] The auditor confirms that a series of payments have been made over the life of each pension account. Subsequent pension payments are reviewed to confirm that a series of payments has been made.

~~342.~~332. Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year[212] and the income ~~stream~~[~~213~~] from ~~the~~ assets ~~providing~~ that support the pension ~~is~~ will not be tax exempt ~~during the period~~for the year.[214] The ATO guidelines *Self-Managed superannuation funds – starting and stopping a superannuation income stream (pension)*[215] outlines exceptions whereby the Commissioner may exercise discretion in allowing a SMSF to treat income as exempt pension income even though the minimum pension standards have not been met. Furthermore the guidelines outline the circumstances under which the ATO will allow a trustee to self-assess their entitlement to this concession.

~~343.~~333. For lump sum payments, the auditor ensures that the fund's governing rules permit such payments and that an appropriate condition of release has been satisfied.

~~344.~~334. 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 governing rules.

~~345.~~335. Ordinarily, the auditor 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 and that retirement is evidenced by a statutory declaration or similar document stating that the individual has retired and will not be seeking paid employment in the future.

~~346.~~336. Total and permanent disability 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 governing rules of the SMSF. The SMSF may or may not have insurance for total and permanent disability.

~~347.~~337. With respect to death benefits, the auditor checks the trust deed obligations, and whether a binding death benefit nomination form has been completed by the deceased. The auditor ascertains where the death benefits have been paid to confirm that they have gone to either a dependant(s) or the estate of the deceased ~~confirms that the member is deceased by sighting a funeral notice or death certificate and verifies that the correct death benefit has been~~

209 SMSFD 2013/2 explains that a partial commutation occurs when a member in receipt of a pension consciously exercises their right to exchange something less than their full entitlement to receive future pension payments for an entitlement to be paid a lump sum. As there is still an obligation to continue to pay pension benefits, a partial commutation does not result in the cessation of the pension.

210 SMSFD 2014/1 specifically includes transition to retirement income streams.

211 ATO Taxation Ruling *Income tax: when a superannuation income stream commences and ceases* (TR 2013/5) explains that a superannuation income stream that is an account based pension ceases when a valid request for a full commutation takes effect and therefore ceases before the lump sum payment is made.

212 ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and consequently when a superannuation income stream is payable.

~~213 ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and consequently when a superannuation income stream is payable.~~

214 ~~Refer to~~See sub-regulation 1.06(9A) and Schedule 7 of SISR.

215 ATO's guidelines *self-managed superannuation funds – starting and stopping a superannuation income stream (pension)* can be found on the ATO's website www.ato.gov.au/super/self-managed-super-funds (webpage only).

~~paid~~. The auditor enquires as to whether any additional insurance benefit is payable and whether the trustees have claimed any available tax deductions for anti-detriment payments.

~~348.~~338. If an appropriately witnessed and executed binding death benefit nomination has been made, ordinarily, the auditor enquires to ensure that the benefit was paid appropriately according to the nomination's intent. The auditor also checks that nominated beneficiaries are entitled to receive death benefits under the trust deed and the super law.

~~349.~~339. If the SMSF has an insurance policy covering total and permanent disability, total and temporary disability or death or a combination of these benefits, ordinarily the auditor 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, ordinarily, the auditor checks to see that the benefit has been applied either to the member's account or paid to the legal personal representative or beneficiaries.

Assignment of Members' Interests and Charges over Members' Benefits

~~350.~~340. 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,[216] or a charge over, or in relation to, a member's benefits.[217] Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

~~351. The auditor reviews the trustees' minutes, contracts and correspondence to identify any arrangements which may amount to an encumbrance over members' interests or benefits. Similarly, the auditor reviews the same documentation to ensure that the benefit or member's interest has not been assigned to another individual or corporation. The auditor may obtain representations from the trustees that no such arrangements have been entered into as far as they are aware.~~

Contribution Restrictions

~~352.~~341. A contribution is defined as anything of value that increases the capital of a superannuation fund provided by a person whose purpose is to benefit one or more particular members of the fund or all of the members in general.[218] Ordinarily, the auditor examines all contributions made to the SMSF to assess whether they have been made in accordance with the fund's governing rules, SISA and SISR and, that in accepting the contribution, the SMSF is not contravening the SISA and SISR. In making this assessment, the auditor identifies the type of contribution made, the age of the member and the source of the contribution.

~~353.~~342. The auditor tests that the SMSF has accepted contributions only in accordance with the SISR,[219] which are either:

(a) mandated employer contributions received irrespective of the member's age, such as SG contributions, superannuation guarantee shortfall, award related and certain payments from superannuation holding accounts;

(b) member contributions or employer contributions (except mandated contributions) when:

(i) the member is under 65 years old;

(ii) the member is not under 65 but is under 70 and has been gainfully employed at least on a part-time basis during the financial year in which the contribution is made;[220] or

[216] See ~~r~~Regulation 13.12 of the SISR.
[217] See ~~r~~Regulation 13.13 of the SISR.
[218] See TR 2010/1 *Income tax: Superannuation contributions.*
[219] See ~~r~~Regulation 7.04 of the SISR.

(iii) the member is not under 70 but is under 75 and has been gainfully employed at least on a part-time basis during the financial year in which the contribution is made and the contribution is received no later than 28 days after the month end when the member turned 75 and, in the case of a member contribution, it is made by the member.

(c) other contributions for a member who is under 65 years of age; or

(d) contributions received at a later date in respect of a period in which the member met the age restrictions.

~~354.~~343. The auditor also tests that contributions are:

(a) within contribution caps specified in the SISR, being:

(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; and

(b) for a member for whom a tax file number (TFN) has been supplied.

~~355.~~344. In verifying the appropriateness of contributions received the auditor considers factors including:

- The type and source of the 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.

~~356.~~345. Ordinarily, the auditor checks to see that the classification of any taxable contributions is appropriate and allocated to the correct member account. If a single ~~inappropriate~~ non-concessional contribution ~~or contribution~~which is in excess of the non-concessional contributions cap~~s~~ is accepted, the SMSF is not in breach of the SISA or SISR if the SMSF returns the excess amount within 30 days of becoming aware that the amount was received in a manner that was inconsistent with the regulations.[221] The contribution is not required to be returned unless all or part of the contribution itself will cause the member to have excess non-concessional contributions for the income year.[222]The fund reports excess concessional contributions that do not meet the requirements of regulation 7.04 of the SISR as non-concessional contributions The ATO enquires of the member whether the excess is required to be returned to the contributor. The member ordinarily has the choice to return the contributions or leave them in the fund. Concessional contributions returned to the contributor are not included in the amount of the member's non-concessional contributions.

~~357.~~346. With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated ~~correctly where material~~to the correct member.

[220] The basic work test for accepting contributions is to work for remuneration for at least 40 hours in a continual 30 day period within the year the contribution was made.

[221] See r~~R~~egulation 7.04 of the SISR.

~~[222] ATO Interpretative Decision 2008/17, 2008/18, 2008/90, 2009/29, 2010/104.~~

In-specie Contributions

~~358.~~347. *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.

~~359.~~348. Where contributions are accepted *in-specie*, the auditor assesses whether:

(a) the fund's governing rules permits *in-specie* contributions; and

(b) the SISA prohibitions on acquiring assets from related parties (including members) have been satisfied.

~~360.~~349. Once it is established that the *in-specie* contribution may be accepted, the auditor assesses whether the *in-specie* contribution is:

(a) within the contributions cap;

(b) valued ~~fairly, generally~~ at market value ~~or independent valuation~~; and

(c) not in breach of any other SISA prohibition.

Use of Reserves

~~361.~~350. Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the trustees is appropriate and within the requirements of the SISA and SISR. In particular, the allocation from an investment reserve to members' accounts *should* take into consideration the return on the investments, any costs attributable to the members' accounts and the level of the reserves held by the fund.[223] For contributions held in any reserves, the auditor checks to ensure the amounts have been allocated to members' accounts within 28 days ~~of receipt by the fund~~after the end of the month in which the contributions were received.

Investment Returns

~~362.~~351. An auditor ordinarily checks to ensure that any fund investment returns or losses are accurately credited or debited to relevant members' benefits in a way that is fair and reasonable.[224] The allocation *should* take into consideration all the members of the fund and the various kinds of benefits of each member of the fund.

Solvency

~~363.~~352. If the auditor, in the course of, or in connection with, performance of the audit of a SMSF, forms the opinion that the financial position of the SMSF may be, or may be about to become, unsatisfactory, the auditor is required to report to the ATO (in an ACR) and to the trustees in writing under section 130 of the SISA.

~~364.~~ Under the SISR,[225] the financial position of a SMSF is treated as unsatisfactory if, in the auditor's opinion~~:~~

~~(a) for a defined benefit fund: the value of vested benefits exceed the value of the assets; or~~

~~(b)~~353. for an accumulation fund, ~~:~~ either the aggregate members' benefits accounts exceed the value of the assets or the accrued members' benefits exceed the value of the assets.

[223] See ~~S~~sub-regulation 5.03(1) of the SISR.
[224] See ~~S~~sub-regulation 5.03(2) of the SISR.
[225] See ~~R~~regulation 9.04 of the SISR.

Other Regulatory Information

~~365.~~354. In the course of conducting the audit, the auditor may obtain information regarding the SMSF, ~~or~~ a trustee or another auditor which the auditor considers may assist the ATO in performing its functions under the SISA or SISR. This information may relate to compliance with requirements of the SISA or SISR which are not specified in the approved form auditor's report or the ACR. Under section 130A of the SISA, the auditor ~~is required to~~may report any such information to the ATO in the ACR.

~~366.~~355. The auditor considers whether any regulatory information reported in the ACR under section 130A needs to be included in the auditor's report on compliance, as the approved form auditor's report allows for reporting on additional sections of the SISA and SISR, and whether the information affects the compliance assurance opinion.

Other Compliance Engagement Considerations

Service Organisations

356. If a service organisation is used by the SMSF, the auditor cannot merely rely on the type 2 report as evidence of the SMSF's compliance with the SISA and SISR (refer paragraph 25). The auditor ~~*should*~~ performs additional procedures necessary to ensure the SMSF's compliance with the SISA and SISR, for example, reviewing cash transaction accounts to ensure compliance with the borrowing requirements of SIS. To address the other compliance requirements, the auditor requests the service organisation to confirm that the compliance obligations have been met, for example:

(a) Confirmation that the assets are held by the fund trustee, in trust for the fund;

(b) Confirmation that none of the investments were acquired from a related party, or if acquired from a related party, that the acquisition was done at market value;

(c) Confirmation that, to the knowledge of the service provider, none of the investments held is pledged as security.

~~367. If insufficient evidence of compliance is obtained by assurance procedures at the SMSF and further evidence of compliance is located at the service organisation, the auditor may either visit the service organisation to conduct compliance testing or request the SMSF to engage another auditor to conduct the testing required. This may consist of an agreed upon procedures engagement, which may comprise completion of a compliance checklist with respect to the services provided.~~

~~368.~~357. It may be impossible or impractical to obtain sufficient appropriate audit evidence of compliance with respect to the services provided, in which case either the auditor qualifies their opinion on the basis of a limitation of scope or issues a disclaimer of opinion.

Subsequent Events

~~369.~~358. The auditor considers the effect of subsequent events on the auditor's compliance report occurring up to the date the report is signed. If a material compliance breach has occurred after year end and the breach indicates a systemic issue with potential to impact the reporting period, it may result in modifications to the compliance report.

Reporting Compliance Breaches

~~370.~~359. In determining whether to report potential or actual contraventions (breaches) identified during the compliance engagement, the auditor applies different criteria in relation to their reporting obligations to:

(a) a trustee in the management letter;

~~(a)~~(b) a trustee under SISA sections 129 or 130[226] ~~(management letter)~~;

~~(b)~~(c) the ATO, in an ACR, under SISA sections 129 or 130; and

~~(c)~~(d) the trustees in the auditor's compliance report.

~~371.~~360. The auditor reports to a trustee in writing under SISA section 129 any reportable contraventions of the SISA or SISR, which it is likely may have occurred, may be occurring or may occur, regardless of the materiality of those contraventions. The auditor also reports to a trustee under section 130 if the financial position of the SMSF may be, or may be about to become, unsatisfactory.

~~372.~~361. The auditor reports events which may lead, or have led, to one or more contraventions of the SISA or SISR to the ATO in an ACR where they are contraventions of sections or regulations specified in the ACR and, either:

(a) those contraventions meet the reporting criteria, which comprise seven ~~mandatory~~ tests specified in the ACR instructions;[227] or

(b) those contraventions do not meet the specified tests, but the auditor wishes to report them as a result of the exercise of professional judgement.

In addition, the auditor reports to the ATO in an ACR under section 130 if the financial position of the SMSF may be or may be about to become unsatisfactory.[228]

~~373.~~362. 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. Consequently, the auditor determines whether any potential or actual contraventions of the SISA or SISR identified during the audit are:

(a) contraventions of sections of the SISA or SISR specified in the approved form auditor's report; and

(b) material to the SMSF.

~~374.~~ In determining whether a contravention identified is material to the SMSF, and therefore whether a modification to the auditor's report is warranted, the auditor considers the factors in paragraph ~~273~~ 269~~as well as factors such as:~~

- ~~The value of the breach.~~
- ~~. The time taken to rectify the breach, or if not yet rectified, the trustees' proposed actions and timeline for rectification.~~
- ~~Whether the auditor has previously reported the breach in a section 129 report to a trustee or in an ACR.~~
- ~~The extent to which a limit has been exceeded or a statutory deadline missed.~~
- ~~Whether the breach was intentional.~~

363.

[226] Where an auditor forms an opinion that it is likely that a contravention may have occurred, may be occurring or may occur, the reporting criteria and the list of reportable sections and regulations that an auditor applies to determine whether a report to the ATO is required, are listed in the ACR instructions (NAT 11299) www.ato.gov.au/Forms.

[227] The ACR instructions (NAT 11299) and ACR (NAT 11239) are approved forms and can be obtained through the ATO's website at www.ato.gov.au/Forms. Additionally, eSAT software is available free of charge from the tax office to assist in completing the compliance assurance engagement and reporting any ACRs appropriately to the ATO. See www.ato.gov.au/eSAT for further details.

[228] See "Solvency" at paras 363-364.

~~375.~~364. 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 uses professional judgement in determining the impact, if any, on the auditor's compliance report.

~~376.~~365. The circumstances which may result in a modification to the auditor's compliance report are where:

(a) a limitation of scope of the auditor's work exists, due either to circumstances or a trustee 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; or

(b) the SMSF did not comply in all material respects with the requirements included in the approved form, in which case the auditor expresses a qualified or adverse opinion.

~~377.~~366. A qualified opinion is expressed as being "except for" the matter to which the qualification relates when that matter is not as material or pervasive as to require an adverse or disclaimer of opinion.

Appendix 1

(Ref: Para.~~55~~ 56)

EXAMPLE OF AN ENGAGEMENT LETTER FOR THE AUDIT OF A SELF-MANAGED SUPERANNUATION FUND

The following example audit engagement letter is for use as a guide only, in conjunction with the considerations described in GS 009, and may need to be modified according to the individual requirements and circumstances of each engagement.

To [the Trustees/Directors of the Corporate Trustee] of [name of SMSF]

[The Objective and Scope of the Audit]

You have requested that we audit the [name of SMSF]'s (the Fund):

1. financial report, which comprises the [statement of financial position/statement of net assets] as at [date] and the [operating statement/statement of changes in net assets] for the [period] then ended and the notes to the financial statements; and

2. compliance during the same period with the requirements of the Superannuation Industry (Supervision) Act 1993 (SISA) and SIS Regulations (SISR) specified in the approved form auditor's report as issued by the ATO, which are sections 17A, 35AE, 35B, 35C(2), 52(2)(~~d~~e), ~~52(2)(e),~~ 62, 65, 66, 67, 67A, 67B, ~~69-71E, 73-75,~~ 8~~0~~2-85, 103, 104, 104A, 105, 109 and 126K of the SISA and regulations 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8.02B, 13.12, 13.13, 13.14 and 13.18AA of the SISR.[229]

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 SISA with the objective of our expressing an opinion on the financial report and the Fund's compliance with the specified requirements of the SISA and SISR.

[The Responsibilities of the Auditor]

We will conduct our financial audit in accordance with Australian Auditing Standards and our compliance engagement in accordance with applicable Standards on Assurance Engagements, issued by the Auditing and Assurance Standards Board (AUASB). These standards require that we comply with relevant ethical requirements relating to audit and assurance 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 SISA and SISR.

The annual audit of the financial reports and records of the Fund must be carried out during and after the end of each year of income. In accordance with section 35C of the SISA, we are required to provide to the trustees of the Fund an auditor's report in the approved form within the prescribed time as set out in the SISR, 28 days after the trustees have provided all documents relevant to the preparation of the auditor's report.

Financial Audit

A financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. A financial audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by the

[229] These sections and regulations need to be amended if there are any changes to the sections and regulations in the approved form auditor's report.

trustees, as well as evaluating the overall presentation of the financial report. 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.

In making our risk assessments, we consider internal controls relevant to the Fund's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls. However, we expect to provide you with a separate letter concerning any significant deficiencies in the Fund's system of accounting and internal controls that come to our attention during the audit of the financial report. This will be in the form of a trustee letter.

<u>Compliance Engagement</u>

A compliance engagement involves performing audit procedures to obtain audit evidence about the Fund's compliance with the provisions of the SISA and SISR specified in the ATO's approved form auditor's report.

Our compliance engagement with respect to investments includes determining whether the investments are made for the sole purpose of funding members' retirement, death or disability benefits and whether you have an investment strategy for the Fund, which has been reviewed regularly and gives due consideration to risk, return, liquidity, diversification and the insurance needs of ~~members~~<u>member's</u> managers. Our procedures will include testing whether the investments are made for the allowable purposes in accordance with the investment strategy, but not for the purpose of assessing the appropriateness of those investments to the members.

[The Responsibilities of the Trustees]

We take this opportunity to remind you that it is the responsibility of the trustees to ensure that the Fund, at all times, complies with the SISA and SISR as well as any other legislation relevant to the Fund. The trustees are also responsible for the preparation and fair presentation of the financial report.

Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report and for determining that the accounting policies used are consistent with the financial reporting requirements of the SMSF's governing rules, comply with the requirements of SISA and SISR and are appropriate to meet the needs of the members.[230] 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. The system of accounting and internal control should be adequate in ensuring that all transactions are recorded and that the recorded transactions are valid, accurate, authorised, properly classified and promptly recorded, so as to facilitate the preparation of reliable financial information. This responsibility to maintain adequate internal controls also extends to the Fund's compliance with SIS including any Circulars and Guidelines issued by a relevant regulator to the extent applicable. The internal controls should be sufficient to prevent and/or detect material non-compliance with such legislative requirements.
- Selecting and applying appropriate accounting policies.
- Making accounting estimates that are reasonable in the circumstances.
- Making available to us all the books of the Fund, including any registers and general documents, minutes and other relevant papers of all Trustee meetings and giving us any information, explanations and assistance we require for the purposes of our audit. Section 35C(2) of SIS requires that Trustees *must* give to the auditor any document that the auditor requests in writing within 14 days of the request.

[230] If the SMSF is a reporting entity this sentence requires amendment to read: "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 Australian Accounting Standards (including the Australian Accounting Interpretations)."

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

Our audit report is prepared for the members of the Fund and we disclaim any assumption of responsibility for any reliance on our report, or on the financial report to which it relates, to any person other than the members of the Fund, or for any 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 SISA and SISR including APES 110 *Code of Ethics for Professional Accountants* in relation to the audit of the Fund. In conducting our financial audit and compliance engagement, should we become aware that we have contravened the independence requirements, we *shall* notify you on a timely basis.

[Report on Matters Identified]

Under section 129 of the SISA, 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 SISA or SISR which we believe has occurred, is occurring or may occur. Furthermore, you should be aware that we are also required to notify the Australian Taxation Office (ATO) of certain contraventions of the SISA and SISR that we become aware of during the audit, which meet the tests stipulated by the ATO, irrespective of the materiality of the contravention 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 financial position of the Fund may be, or may be about to become unsatisfactory.

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. The completed audit report may be provided to you as a signed hard copy or a signed electronic version.[231]

[Compliance Program]

The conduct of our engagement in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements means that information acquired by us in the course of our engagement 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 compliance program of a professional accounting body or the ATO. We advise you that by signing this letter you acknowledge that, if requested, our audit files relating to this audit will be made available under these programs. Should this occur, we will advise you. The same strict confidentiality requirements apply under these programs as apply to us as your auditor.

[Limitation of liability][232]

As a practitioner/firm participating in a scheme approved under Professional Services Legislation, our liability may be limited under the scheme.]

[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.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

---

[231] The auditor should retain an original hard copy in the working papers.

[232] Applicable to participants in a limitation of liability scheme. Accounting Professional and Ethical Standard APES 305 *Terms of Engagement*, issued by the Accounting Professional & Ethical Standards Board in December 2007, which is applicable to members of the professional accounting bodies in Australia in public practice, requires participants in a limitation of liability scheme under Professional Services Legislation to advise the client that the member's liability may be limited under the scheme.

[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 financial audit and compliance engagement of the [name of SMSF].

[Insert here or attach any additional matters specific to the engagement, such as business terms and conditions, as appropriate.]

Yours faithfully,

....

Name and Title

Date

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

....

Name and Title

Date

Appendix 2

(Ref: Para. ~~116~~118)

EXAMPLE OF A SELF-MANAGED SUPERANNUATION FUND TRUSTEE REPRESENTATION LETTER

This illustrative letter is provided as an example only and may need to be modified according to the individual requirements and circumstances of each engagement. Representations by the trustees will vary between SMSFs and from one period to the next. In the event that the trustees do not provide requested written representations the auditor should make reference to ASA 580 in determining the effect on the audit.

[SMSF letterhead]

Date

[Addressee - Auditor]

Dear [Sir/Madam],

Trustee Representation Letter

This representation letter is provided in connection with your audit of the financial report of the [SMSF Name] (the Fund) and the Fund's compliance with the Superannuation Industry (Supervision) Act 1993 (SISA) and SIS Regulations (SISR), for the [period] ended [date], for the purpose of you expressing an opinion as to whether the financial report is, in all material respects, presented fairly in accordance with the accounting policies adopted by the Fund and the Fund complied, in all material respects, with the relevant requirements of SISA and SISR.

The trustees have determined that the Fund is not a reporting entity for the [period] ended [date] and that the requirement to apply Australian Accounting Standards and other mandatory reporting requirements do not apply to the Fund.[233] Accordingly, the financial report prepared is a special purpose financial report which is for distribution to members of the Fund and to satisfy the requirements of the SISA and SISR. We acknowledge our responsibility for ensuring that the financial report is in accordance with the accounting policies as selected by ourselves and requirements of SISA and SISR, and confirm that the financial report is 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.

[Include representations relevant to the Fund. Such representations may include the following examples.]

1. Sole purpose test

   The Fund is maintained for the sole purpose of providing benefits for each member on their retirement, death, termination of employment or ill-health.

2. Trustees are not disqualified

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

[233] If the SMSF is a reporting entity then it will be required to prepare a general purpose financial report in accordance with the Australian Accounting Standards and this paragraph will need to be adapted accordingly.

3. Fund's governing rules, trustees' responsibilities and Fund conduct

The Fund meets the definition of a self-managed superannuation Fund under SISA, including that no member is an employee of another member, unless they are relatives and no trustee [or director of the corporate trustee] receives any remuneration for any duties or services performed by the trustee [or director] in relation to the Fund.

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

The trustees have complied with all aspects of the trustee requirements of the SISA and SISR.

The trustees are not subject to any contract or obligation which would prevent or hinder the trustees in properly executing their functions and powers.

The Fund has been conducted in accordance with SISA, SISR and the governing rules of the Fund.

The Fund has complied with the requirements of the SISA and SISR specified in the approved form auditor's report as issued by the ATO, which are sections 17A, 35AE, 35B, 35C(2), 52(2)(~~d~~e), ~~52(2)(e),~~ 62, 65, 66, 67, 67A, 67B, ~~69-71E, 73-75,~~ 8~~0~~2-85, 103, 104, 104A, 105, 109 and 126K of the SISA and regulations 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8,02B, 13.12, 13.13, 13.14 and 13.18AA of the SISR.

All contributions accepted and benefits paid have been in accordance with the governing rules of the Fund and relevant provisions of the SISA and SISR.

There have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial report [or we have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report and the Auditor's/actuary contravention report].

4. Investment strategy

The investment strategy has been determined and reviewed with due regard to risk, return, liquidity diversity and the insurance needs of Fund members, 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

All transactions have been recorded in the accounting records and are reflected in the financial report. 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 acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud. We have established and maintained an adequate internal control structure to facilitate the preparation of reliable financial reports, 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 report.

We have disclosed to you the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves the trustees or others.

In instances where the Fund uses a custodian, we confirm we have not been advised of any fraud, non-compliance with laws and regulations or uncorrected misstatements that would affect the financial report of the fund.

Information retention obligations have been complied with, including:

- ~~All~~ accounting records and financial reports ~~have been~~are being kept for 5 years,
- minutes and records of trustees' [or directors of the corporate trustee] meetings [or for sole trustee: decisions] ~~have been~~are being kept for 10 years;
- records of trustees' [or directors of the corporate trustee] changes and trustees' consents are being kept for at least 10 years;
- copies of all member or beneficiary reports are being kept for 10 years; and
- ~~and~~ trustee declarations in the approved form have been signed and are being kept for each trustee appointed after 30 June 2007.

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 market value. Such amounts are considered reasonable in 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 other than those disclosed in the financial report.

8. Safeguarding Assets

We have considered the importance of safeguarding the assets of the fund, and we confirm we have the following procedures in place to achieve this:

- Authorised signatories on bank and investment accounts are regularly reviewed and considered appropriate; and
- Tangible assets are, where appropriate, adequately insured and appropriately stored.

~~8.~~9. Significant assumptions

We believe that significant assumptions used by us in making accounting estimates are reasonable.

~~9.~~10. Uncorrected misstatements

We believe the effects of those uncorrected financial report misstatements aggregated by the auditor during the audit are immaterial, both individually and in aggregate, to the financial report taken as a whole. A summary of such items is attached.

~~10.~~11. Ownership and pledging of assets

The Fund has satisfactory title to all assets appearing in the statement of [financial position/net assets]. All investments are registered in the name of the Fund, where possible, and are in the custody of the respective manager/trustee.

There are no liens or encumbrances on any assets or benefits and no assets, benefits or interests in the Fund have been pledged or assigned to secure liabilities of others.~~.~~

All assets of the Fund are held separately from the assets of the members, employers 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.

~~11.~~12. Related parties

We have disclosed to you the identity of the Fund's related parties and all related party transactions and relationships. Related party transactions and related amounts receivable have been properly recorded or disclosed in the financial report. Acquisitions from, loans to, leasing of assets to and investments in related parties ~~have~~has not exceeded the in-house asset restrictions in the SISA at the time of the investment, acquisition or at year end.

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

~~12.~~13. Borrowings

The Fund has not borrowed money or maintained any borrowings during the period, with the exception of borrowings which were allowable under SISA.

~~13.~~14. Subsequent events

No events or transactions have occurred since the date of the financial report, or are pending, which would have a significant adverse effect on the Fund's financial position at that date, or which are of such significance in relation to the Fund as to require mention in the notes to the financial statements in order to ensure they are not misleading as to the financial position of the Fund or its operations.

~~14.~~15. Outstanding legal action

We confirm you have been advised of all significant legal matters, and that all known actual or possible litigation and claims have been adequately accounted for, and been appropriately disclosed in the financial report.

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

There have been no communications from the ATO concerning a contravention of SISA or SISR which has occurred, is occurring, or is about to occur.

16. Going Concern

We confirm we have no knowledge of any events or conditions that would cast significant doubt on the fund's ability to continue as a going concern.

~~15.~~17. Additional matters

[Include any additional matters relevant to the particular circumstances of the audit, for example:

- the work of an expert has been used; or
- justification for a change in accounting policy.]

We understand that your examination was made in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements and was, therefore, designed primarily for the purpose of expressing an opinion on the financial report of the Fund taken as a whole, and on the compliance of the Fund with specified requirements of SISA and SISR, and that your tests of the financial and compliance records and other auditing procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

(signed)
………………………..

[Director/Trustee]

[Date]

………………………..

[Director/Trustee]

[Date]

~~Appendix 3~~

~~(Ref: Para.292)~~

~~ATO'S APPROVED FORM AUDITOR'S REPORT FOR A SELF-MANAGED SUPERANNUATION FUND~~

~~The approved form auditor's report in this Appendix has been extracted from the ATO's *Instructions and form for approved auditors of SMSFs, Self-managed superannuation fund independent auditor's report* (NAT11466.06.2013)[234] and *should* be read in conjunction with those instructions. Since this approved form is updated from time to time, the applicable version should be checked on the ATO's website. This report applies for reporting periods commencing on or after 1 July 2012.~~

~~SELF-MANAGED SUPERANNUATION FUND INDEPENDENT AUDITOR'S REPORT~~

~~Approved SMSF auditor details~~

~~Name~~

~~Postal address~~

~~Business name~~

~~Business postal address~~

~~SMSF auditor number (SAN)~~

~~Professional organisation~~

~~Professional membership or registration number~~

~~Self-managed superannuation fund details~~

~~Self-managed superannuation fund (SMSF) name~~

~~Australian business number (ABN) or tax file number (TFN)~~

~~Address~~

~~Year of income being audited~~

~~To the trustees~~

~~To the trustees of [SMSF name]~~

~~Part A: Financial report~~

~~I have audited the special purpose financial report comprising [Insert the title of statements audited including reference to the summary of significant accounting policies and other explanatory notes. For example: 'the statement of financial position as at 30 June [year], and the operating statement, statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory notes.'] of the [SMSF name] for the year ended 30 June [year].~~

~~SMSF trustee's responsibility for the financial report~~

~~Each SMSF trustee is responsible for the preparation and fair presentation of the financial report in accordance with the financial reporting requirements of the SMSF's governing rules, the~~

~~234 The ATO's Instructions and form for approved auditors of SMSFs, *Self-managed superannuation fund independent auditor's report* (NAT11466) is available at: www.ato.gov.au/Superfunds.~~

~~*Superannuation Industry (Supervision) Act 1993* (SISA) and the Superannuation Industry (Supervision) Regulations 1994 (SISR), and for such internal control as each trustee determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.~~

~~Approved SMSF auditor's responsibility~~

~~My responsibility is to express an opinion on the financial report based on the audit. I have conducted an independent audit of the financial report in order to express an opinion on it to the trustee. I have complied with the auditor independence requirements prescribed by the SISR and the competency standards set by ASIC.~~

~~My audit has been conducted in accordance with Australian Auditing Standards. These standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial report.~~

~~I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.~~

~~[*Additional material may be inserted here at the discretion of the auditor*.]~~

~~[Basis for Qualified / Disclaimer of / Adverse approved SMSF auditor's opinion~~

~~This section should be modified if the financial report is not a true and fair presentation of the financial position of the fund, or if in the opinion of the approved SMSF auditor the financial position of the fund may be, or may be about to become, unsatisfactory or there are other conditions that warrant a qualification.]~~

~~[Qualified / Disclaimer of / Adverse] approved SMSF auditor's opinion~~

~~In my opinion, [except for the effects on the financial statements of the matter/s referred to in the preceding paragraph,] the financial report:~~

~~[*Select one option*]~~

~~a) presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements, the financial position of the fund at 30 June [year] and the results of its operations for the year then ended.~~

~~OR~~

~~b) presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements, the net assets of the fund as at 30 June [year] and the changes in net assets for the year then ended.~~

~~OR~~

~~c) presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements (and the SMSF's governing rules), the operations of the fund for the year ended 30 June [year].~~

~~[The following "Basis of Accounting" section is required if the audit report is for a reporting period commencing on and from 1 January 2010, otherwise delete it.]~~

~~Basis of Accounting~~

~~Without modifying my opinion, I draw attention to Note [X] of the financial report, which describes the basis of accounting. The financial report has been prepared to assist [SMSF Name] to meet the requirements of the SMSF's governing rules, the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR). As a result, the financial report may not be suitable for another purpose.~~

~~Part B: Compliance Report~~

~~SMSF trustee's responsibility for compliance~~

~~Each SMSF trustee is responsible for complying with the requirements of the SISA and the SISR.~~

~~Approved SMSF auditor's responsibility~~

~~My responsibility is to express opinion conclusion on the trustee's compliance, based on the compliance engagement.~~

~~I have complied with the auditor independence requirements prescribed by the SISR and the competency standards set by ASIC. My audit has been conducted in accordance with applicable Standards on Assurance Engagements, to provide reasonable assurance that the trustee of the fund has complied, in all material respects, with the relevant requirements of the following provisions (to the extent applicable) of the SISA and the SISR.~~

~~Sections: 17A, 35A, 35B, 35C(2), 52(2)(d), 52 (2)(e), 62, 65, 66, 67, 67A, 67B, 69-71E, 73-75, 80-85, 103, 104A, 109, 126K~~

~~Regulations: 1.06(9A), 4.09, 4.09A[235], 5.03, 5.08, 6.17, 7.04, 8.02B[236], 13.12, 13.13, 13.14 13.18AA.[237]~~

~~[*Additional sections and regulations may be inserted here at the discretion of the auditor*.]~~

~~My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SISA and the SISR for the year ended 30 June [year].~~

~~These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SISA and the SISR apart from those specified. My procedures with respect to section 62 included testing that the fund trust deed establishes the fund solely for the provision of retirement benefits for fund members or their dependants in the case of the member's death before retirement; a review of investments to ensure the fund is not providing financial assistance to members, unless allowed under the legislation; and testing that no preserved benefits have been paid before a condition of release has been met.~~

~~My procedures with respect to regulation 4.09 included testing that the fund trustee has an investment strategy, that the trustee has given consideration to risk, return, liquidity, diversification, the insurance needs of fund members and that the fund's investments are made in line with that investment strategy. No opinion is made on the investment strategy or its appropriateness to the fund members.~~

~~I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit conclusion.~~

~~[Basis for Qualified / Disclaimer of / Adverse approved SMSF auditor's conclusion]~~

~~[235] Reg 4.09A commenced 7/8/2012.~~

~~[236] Reg 8.02B commenced 7/8/2012.~~

~~[237] An explanation of each of these sections and regulations is attached as an appendix to assist trustees. Please ensure that it is attached to the fund's audit report.~~

~~[*This section should be modified if, in the opinion of the auditor, a contravention of one of the provisions listed is material*.]~~

~~**[Qualified / Disclaimer of / Adverse] approved SMSF auditor's conclusion**~~

~~In my opinion, [except for the matter/s referred to above] each trustee of [SMSF name] has complied, in all material respects, with the requirements of the SISA or the SISR specified above, for the year ended 30 June [year].~~

~~[Signature]~~

~~[Name of approved SMSF auditor]~~ ___________________________

~~[Date]~~ ___________________

Appendix ~~4~~3

(Ref: Para.~~64~~ 65)

SELF-MANAGED SUPERANNUATION FUND GOVERNING RULES AUDIT PLANNING CHECKLIST

In obtaining a preliminary understanding of the SMSF, as part of the planning process, the auditor examines the trust deed or other document that contains the fund's governing rules 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.

Ref	Questions to be addressed in examining the trust deed
A	**ESTABLISHMENT AND EXECUTION**
A.1	Is the date of establishment of the SMSF recorded?
A.2	Has the trust deed been: • Properly executed? • Signed by all the members who are individual trustees? • Witnessed? • Dated? • Stamped (if required)?
A.3	Do the rules incorporate the SISA, SISR and applicable taxation rules?
A.4	Does the deed outline the core and ancillary purposes of the SMSF?
A.5	Does the deed require an irrevocable election to be made to be a regulated superannuation fund or a fund subject to the SISA and SISR?
A.6	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	**AMENDMENTS TO THE DEED**
B.1	Does the deed allow amendments?
B.2	Has the trust deed been amended since the last audit? If so: • Has the deed amendment been properly executed? • Is confirmation of the deed's compliance with SISA and SISR required from the solicitor or other party involved in the amendment? • Is the amendment signed off by the current trustees? • Could the amendments impact the audit?
C	**TRUSTEE AND MEMBERSHIP**
C.1	Does the trust deed specify who may be a trustee? Either: • Two or more individual trustees; or • A trustee company.
C.2	Does the deed specifically identify the trustee as either ~~an~~ individuals or a corporate entity?
C.3	Are all individual trustees or directors of the trustee company required to be members?
C.4	Does the deed permit members to be • A non-working spouse? • A retired person? • A child?

Ref	Questions to be addressed in examining the trust deed
C.5	Does the deed limit the maximum number of members to 4 members?
C.6	Is membership open to anyone else?
C.7	Do the members of the SMSF meet the definitions? • No member of the SMSF is an employee of another member, unless related. • No trustee receives remuneration for their services to the SMSF in their capacity as trustee.
C.8	Does the trust deed contain the trustee covenants in s.52B of the SISA?
D	**AUDIT AND FINANCIAL REPORTS**
D.1	Does the trust deed require the appointment of an approved SMSF auditor?
D.2	Does the trust deed require the trustees to prepare a financial report annually and for it to be audited?
D.3	Does the trust deed require the trustees to keep the minutes and records of trustee decisions for at least 10 years and accounting records and signed financial reports for at least 5 years?
E	**CONTRIBUTIONS**
E.1	Does the deed allow: • Concessional contributions, including: - Employer contributions, including contributions made pursuant to a salary sacrifice agreement? - Member contributions for which a tax deduction is claimed? • Non-concessional contributions, including: - Member contributions for which no tax deduction is claimed? - Eligible spouse contributions? • Contributions in respect of minors? • Rollovers and transfers in? • Government co-contributions? • Contribution splitting to a spouse? • Contributions by members who are under 65 and not working? • Contributions by members who are working part-time and are over 65 and under 75? • Mandated contributions to be accepted at any age? • Contribution splitting arrangements pursuant to family law matters?
E.2	Does the deed allow for *in-specie* contributions of assets to be made by members or related parties?
E.3	Does the deed permit spouse accounts and may employers make contributions to spouse accounts?
E.4	Does the deed provide a basis for rejecting excess contributions?
E.5	May excess contributions tax levied on the member be paid by the SMSF, irrespective of preservations rules and conditions of release?
F	**BENEFIT PAYMENTS**
F.1	Does the SMSF require compulsory cashing of the members balance at a specific age?
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
G	**PENSIONS**
G.1	Does the deed expressly allow for payment of pensions by the SMSF, including*: • Account based pensions? • Transition to retirement income stream? • Allocated pensions? • Term allocated or market linked or growth pensions? • ~~Complying lifetime or fixed term pensions~~ • Non-complying lifetime or fixed term pensions? * This list includes a number of pensions which may no longer be permitted but if already established may continue being paid.
G.2	Does the deed allow for commutation of a pension?
G.3	Does the deed allow for the segregation of assets to meet pension requirements?

Ref	Questions to be addressed in examining the trust deed
G.4	Does the deed make reference to nominated beneficiaries?
H	**RESERVES (If applicable)**
H.1	Does the deed provide rules in relation to the establishment, maintenance and operation of SMSF Reserves?
H.2	Does the deed require different or parallel investment strategies for each reserve account?
I.	**INVESTMENTS**
I.1	Does the deed provide powers to the trustees to invest the assets of the SMSF?
I.2	Does the deed specify specific assets/asset classes that the SMSF may invest in?
I.3	Does the deed prevent investments in, or loans to, related parties?
I.4	Does the deed require an investment strategy to be formulated, regularly reviewed, and given effect?
I.5	Does the deed require the investment strategy to consider if insurance is relevant to the members of the fund?
J	**BORROWINGS**
J.1	Does the deed prohibit borrowings?
J.2	Does the deed permit borrowing in specific circumstances, including: • Temporary borrowings which are required for the payment of member benefits, short term settlement of securities or superannuation contributions surcharges (no longer levied)? • Borrowings for limited recourse borrowing arrangements?
K	**WINDING-UP**
K.1	Does the deed provide for the winding-up of the SMSF?

Appendix ~~5~~4

(Ref: Para.~~69~~ 70)

ILLUSTRATIVE FINANCIAL AUDIT PROCEDURES FOR A SELF-MANAGED SUPERANNUATION FUND

The following suggested procedures are 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 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 program or checklist in the conduct of a SMSF's financial audit and not all of the procedures suggested will apply to every SMSF's financial audit.

The procedures detailed are designed to address the financial audit of a SMSF, however, in some instances, where compliance matters are integral to the financial audit, these may also be included. For procedures in conducting a compliance engagement, a compliance checklist may be used. Standardised checklists are available from a number of professional organisations~~ and the ATO has standard questions, which are contained in *Guide for SMSF auditors – Approved auditors of self-managed super funds – role and responsibilities.*~~[238]. Auditors should verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions[239].

Ref	Audit Procedure
A	**ENGAGEMENT ACCEPTANCE**
A.1	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit, including: • Clearance from previous auditor on new engagements. • The firm has the appropriate resources and expertise to complete the engagement in the required time. • Confirmation of independence of the engagement partner and each audit team member.
A.2	Confirm that an engagement letter, that it is relevant to the scope of this audit, has been issued and will be signed by the trustee prior to the completion of the audit.
A.3	A client acceptance or retention assessment has been undertaken.
B	**AUDIT PLANNING**
B.1	Obtain a copy of the following documents before commencing the audit: • Fund's governing rules and amendments. • Signed audited financial reports for the prior year, including the signed prior year's auditor's report. • Minutes of trustee meetings.

B.2	Prepare an audit strategy and audit plan for this engagement addressing, as a minimum, the following matters:
	• Client profile, audit and reporting arrangements.
	• Audit approach
	  - Nature:
	    o Controls testing, including use of auditor's report available for key service organisations.
	    o Substantive testing – inspection, observation, enquiry, confirmation, recalculation, re-performance and analytical review.
	  - Timing.
	  - Extent – fully substantive, sampling, analytical review or representations.
	  - Resources, including extent of direction and supervision.
	Consider interviewing the trustees and/or their advisors, prior to and during the development of the audit plan.

~~[238] The ATO's compliance checklist is contained within NAT 11375 and is available on the ATO's website at www.ato.gov.au/Superfunds~~

[239] Auditor guidance and information is available on the ATO website at https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors including the ATO's electronic superannuation audit tool (eSAT), for use in conducting the compliance engagement.

Ref	Audit Procedure
B.3	Complete a risk assessment and determine preliminary materiality levels, covering: • Risk assessment - Current period events. - Fraud risks. - Control environment. - Computer/IT environment. • Materiality
B.4	Regulatory matters • Before commencing the audit, confirm that the SMSF is an ATO regulated self-managed superannuation fund on Super Look Up (www.superlookup.gov.au).
C	**FINANCIAL REPORT AND DISCLOSURE**
C.1	Clerical accuracy and note references Check that: • The financial report includes an operating statement and statement of financial position or their equivalent and notes to the financial statements. • The table of contents or index agrees to the financial report, including the page numbers and content. • The footnotes refer to the notes to the financial statements and do not mention compilation reports or "unaudited" information. • The audit report is situated appropriately in the financial report so as not to suggest that members' statements or other information have been audited. • Prior period comparatives agree to those from the prior year signed financial report. • Additions in the financial report are correct. • The notes to the financial statements cross-reference correctly to and from the operating statement and statement of financial position.
C.2	Opening Balances - new engagements • Review the most recent audited financial report, and the predecessor auditor's report for any information relevant to opening balances. • Determine whether the opening balances reflect the application of the described accounting policies. • In order to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that may materially affect the current period's financial report: - Consider reviewing the previous auditors' audit work papers to obtain evidence regarding opening balances. - Evaluate whether audit procedures in the current period provide evidence in relation to opening balances. - Consider performing specific audit procedures to obtain evidence regarding opening balances. • Consider the impact of the prior periods modification (if applicable) to the opinion on the current period's financial report. • Consider the sufficiency and appropriateness of audit evidence obtained on opening balances in relation to the current periods financial report. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor should consider the impact on the current period's auditor's report.
C.3	Accounting policies • If the SMSF is not a reporting entity, check that the accounting policy notes reflect this, obtain an understanding of the relevant accounting policies the trustee has used to prepare the financial report and check that the accounting policy notes adequately explain the policies adopted. • Determine whether the accounting policies in relation to assets, contributions, member entitlements and reserves meet the requirements of the SISA and SISR. ~~• If the SMSF is a reporting entity, check that the financial report complies with AAS 25 and other Australian Accounting Standards.~~ • Determine if there are any changes in the accounting policies applied in prior periods, and if so, check that these have been appropriately disclosed in the accounting policy notes.
D	**UNDERLYING ACCOUNTING RECORDS**
D.1	Obtain a copy of the SMSF's ~~trial balance and~~ general ledger and agree the ~~trial balance~~general ledger to the financial report and note any discrepancies.
D.2	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 report.

Ref	Audit Procedure
E	**CASH**
E.1	Confirm the fund's bank accounts are in the name of the trustee on behalf of the fund by reviewing bank statements for each bank account.
E.2	Review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
E.3	Test large and unusual payments and receipts to ensure these are *bona fide* and correctly recorded and authorised.
E.4	Review bank reconciliation at year end: • Follow~~ing~~ up and ~~investigating~~ investigate large, unusual or recurring reconciling items. • Follow up uncleared deposits and unpresented cheques ensuring correct cut off. • Trace unpresented cheques to bank statement subsequent to year end.
E.5	Where banking accounts are significant to the audit you should gain sufficient appropriate audit evidence, that may include: • Confirming the bank balance by way of a bank confirmation. • Obtaining login details for on-line banking facilities in order to confirm balances at year-end. • Sighting original bank statements and subsequent redemptions for term deposits. • Seeking explanations for any material differences. • Checking for any debit balances, undisclosed liabilities and security for borrowings.
~~**E.6**~~	~~Where assets are grouped as "investments" and "other assets", ensure that cash investments are correctly classified as investments.~~
E.~~7~~6	Where the fund had undeposited cheques recorded as "cash on hand" at period end, confirm these amounts were banked after period end. Obtain documentary evidence or confirmation from the trustee that the cash was received by the SMSF prior to and was deposited within a few days of period end.
F	**INVESTMENTS**
F.1	General An auditor should use professional judgement to determine what evidence is appropriate and the size of the sample to be verified for each investment.
F.2	Foreign Currency Transactions 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.
F.3	Investor Directed Portfolio Services (WRAP accounts) • ~~Obtain a copy of the IDPS agreement and verify that the agreement is current and refers to the correct trustee and SMSF.~~ • Obtain the relevant auditor's report issued under ASIC Class Orders CO 13/763 or CO 13/762. • Confirm that the investments are held by the custodian (IDPS) and are identified as belonging to the SMSF. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B). • Check that there is no double counting of assets such as the SMSF bank account or distributions receivable.

F.4	Fixed Interest Securities (including term deposits)
	• Complete the following for each fixed interest security including debentures and bonds held by the SMSF at the end of the period:
	  - Sight original certificates or obtain a bank confirmation to confirm correct ownership, date of issue of the certificates and date of maturity of the investment.
	  - Agree the value of the fixed interest securities at period end.
	  - For bonds, either confirm the net market value at period end with the originator of the security or with published market prices.
	  - For unlisted non-transferable debentures, agree the net market value with the face value.
	• Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that the investment is an asset of the Fund.
	• Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes, and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued

<table>
<tr><th>Ref</th><th>Audit Procedure</th></tr>
<tr><td></td><td>at market value (SISR regulation 8.02B).</td></tr>
<tr><td>F.5</td><td><u>Property</u>
• Complete property searches for all real estate investments owned by the SMSF.
• Check that each property is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. This may involve viewing ~~a declaration of trust, Register General’s Caveat or similar document~~the contract of sale when the property was first acquired, a declaration of trust or an acknowledgement of trust from the registered owner.
• Check that there are no registered encumbrances unless they are in relation to limited recourse borrowing arrangements permitted by Sections 67A and 67B of the SISA. If there are limited recourse borrowing arrangements – refer to F10 of these Illustrative Procedures.
• Review the accounting policies to determine how the trustee has valued each property. Fund assets including property investments are required by Regulation 8.02B of the SISR to be carried at market value determined in line with ATO Valuation guidelines for self-managed superannuation funds.
• Review the method used to value the property, including if the trustees have relied on an independent market appraisal or valuation, obtain a copy of this and confirm that:
- The value is correctly reflected in the financial report.
- The valuation/appraisal refers to the correct property.
- The valuation was based on reasonable assumptions and is current.
- The valuation does not take into account redemption costs, other than any GST payable on sale which should be removed from the value.
- If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal.
- That the method used to value the property is consistent with that disclosed in the accounting policy notes and is in line with ATO requirements and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B).
- Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith, using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.
• Where the property includes “buildings and other fixtures” verify existence of adequate insurance and, where these are being depreciated, ensure that the depreciation adjustments are correctly and appropriately reflected as part of the market value of the investment.</td></tr>
<tr><td>F.6</td><td><u>Listed Securities</u>
Review the number of listed securities including shares, units, options, warrants and futures held by the SMSF at the end of the period. If the SMSF has units in unit trusts, obtain a listing of these and identify any unit trusts that are listed on the Australian Stock Exchange, those that are widely held trusts and those that are closely held trusts.
• Check that each listed security is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties as required by ~~section 52(2)(d) of the SISA and~~ regulation 4.09(A)(2) of the SISR.
• Agree the number of securities held at period end to the share registry or other appropriate sources.
• Confirm the closing market price of the securities at the period end against an independent source.
• Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).
• If the SMSF invested or redeemed listed securities during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.</td></tr>
</table>

Ref	Audit Procedure

F.7	Widely Held Unlisted Unit Trusts and Managed Funds
	These are arm's length, professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices.
	• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree:
	  - The number of securities held at period end.
	  - That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF, and is held separate from the assets of the trustee, employers and other related parties as required by ~~section~~ r~~52(2)(d) of the SISA and r~~egulation 4.09(A)(2) of the SISR.
	  - The method used to determine the market value of the units at the period end is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).
	  - Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported.
	• If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.

F.8	Unlisted Closely Held Unit Trusts
	These can be related trusts that may require additional audit procedures to confirm ownership, value and compliance with the SISR and SISA.
	• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and:
	  - Agree the number of units held at period end, and that
	  - each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties
	• Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value and test the value by:
	  - Obtaining documentary evidence to support the valuation.
	  - Make enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units and any other factors that could impact the value of the investment.
	  - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).
	  - Where the trustee has undertaken the valuation, assess whether that the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.
	If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.

F.9	Pooled Superannuation Trusts and Life Insurance Policies • Sight original statements issued by the product provider, or obtain a confirmation directly from the product provider at period end. • Confirm that the investment is in the correct name. • Confirm the number of units and value of the investment at period end. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at marked value (SISR regulation 8.02B).

Ref	Audit Procedure
F.10	Assets subject to Limited Recourse Borrowing/ Arrangements • If the asset is subject to a limited recourse borrowing arrangement, determine how the investment has been valued (refer above) and complete the following audit procedures: - Confirm the borrowing has either been used to acquire a single asset or, if the borrowing has been used to acquire a collection of assets, confirm each asset in the collection has an identical market value and that each asset in the collection is identical. - Confirm that the asset is held in trust for the SMSF - Confirm the borrowing has only been used to maintain and repair the asset (not improve the asset) or applied to refinance the borrowing. - If the asset was replaced, confirm the following: ○ A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or ○ A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or ○ Is as a result of a corporate action - Confirm that the SMSF has an option to acquire the legal ownership of the asset on payment of the final instalment. - Confirm that the lenders rights are limited in recourse against the fund trustee, to that asset. - Review an original statement or confirmation letter from the lender and confirm the amount of the debt, amount owing at balance date, interest charged during year, amount of borrowing costs incurred in the period and the value of any prepaid expense at the end of the period and that these have been correctly reflected in the financial report. • Consider if any additional disclosures are required so that the users of the financial report understand the limited recourse borrowing arrangement. Review the clerical and factual accuracy of any additional disclosure to ensure it appropriately reflects the position of the arrangement.
F.11	Collectables and Personal Use Assets • If the asset is a type that does not have any form of title, obtain evidence to confirm existence and ownership including: - Minutes or resolution relating to the acquisition of the asset. - Invoice and evidence of payment from the SMSF for the purchase of the asset. - Sighting asset. - Insurance policy or premium payment for insurance of the asset. - Lease documents, if leased to another party. • Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value and test the value by: - Obtaining documentary evidence to support the valuation. - Make enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units and any other factors that could impact the value of the investment. - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.
G	**RECEIVABLES AND PREPAYMENTS**
G.1	If the SMSF uses accrual accounting, review each asset and determine if the SMSF was entitled to receive income for the year and if this had been received or accrued at balance date.
G.2	Obtain details of other receivables and ensure that they are correctly accounted for.
G.3	Verify that the receivable is current and has been received by the SMSF subsequent to period end or that it will be received by the SMSF.
G.4	If the amount is receivable from a related party, check that the disclosures are appropriate, and review this further as part of your compliance audit.
G.5	If the fund pays insurance or other expenses, ensure that these have been applied in the period to which they relate and prepaid items have been recorded in accordance with the accounting policies.

Ref	Audit Procedure
H	**LIABILITIES**
H.1	Review the value at which liabilities have been disclosed in the financial report and vouch to supporting documentation. Review the documentation and assess whether the amount and nature of the liabilities appears reasonable.
H.2	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
H.3	Review ageing of liabilities/payables and comment on any delay in payment.
H.4	Vouch prior year payables and accruals to payments during the year.
H.5	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
H.6	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
H.7	If the fund has a limited recourse borrowing arrangement ensure that the liability is accurately and appropriately recorded in accordance with the arrangement (refer suggested procedures at F10 above).
I	**MEMBER'S ENTITLEMENTS / ACCRUED BENEFITS**
I.1	• Obtain listing of all members account balances and check that the total agrees with accrued benefits in the financial report. • Review the allocation of revenue, expenses, income tax, ~~surcharge,~~ excess contributions tax and other items to members to ensure that they have been correctly apportioned. • Ensure that the disclosures in the financial report are appropriate and consistent with the member's entitlements. • ~~Check that vested benefits do not exceed net assets.~~
~~**I.2**~~	• ~~If the fund is a defined benefit fund, obtain and review a copy of the most recent actuarial valuation to confirm that the values in the valuation agreed with accrued and vested benefits in the financial report and that the accrued benefits do not exceed net assets.~~
J	**RESERVES**
J.1	Review the SMSF's documentation including the fund's governing rules and trustee minutes to ensure that the reserve is permitted and recorded in accordance with trustee policy.
J.2	Review the movements in the reserve during the period to ensure that they are clerically accurate and in accordance with the trustee's policy.
J.3	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
K	**INVESTMENT AND OTHER REVENUE**
K.1	<u>Analytical Review</u> • Calculate the SMSF's investment return as a percentage based on the net income as a proportion of average assets held by the SMSF over the period. • Compare this to the prior year as well as average market performance (for example, super ratings) for the period of the audit and confirm that the return is reasonable and not under or overstated.
K.2	<u>Interest Income</u> • Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received. • For bank interest, analytical review against ROI on the bank audit confirmations
K.3	<u>Changes in Market Value</u> • Test the changes in market value calculations including realised changes in market value to ensure that they are correct. • Analytical review. • Tying into investments, for substantive audits.
K.4	<u>Dividends</u> • Vouch dividends received to dividend slips, published dividend rates or registry details. • Confirm the accounting treatment of franking credits (either on a net or gross basis) and ascertain accounting treatment is consistent with the details disclosed in the accounting policy notes.

Ref	Audit Procedure
K.5	Trust Distributions • Vouch distributions received and receivable to distribution advices, ensuring that the discounted capital gains and other income have been correctly classified for tax purposes.
K.6	Rental Income • Vouch rental income against agent's statements or other records~~ and cash receipts~~, as appropriate. • Review the disclosure of rental expenses in relation to the disclosure and distribution of net investment revenue to ensure it meets the requirements of the governing rules, the needs of members and the requirements of the SISR. • Analytical review against rental agreement and period of tenancy. • Check any rent reviews in the lease agreements during the period have been correctly applied.
K.7	Other Income • If the SMSF receives other forms of income ensure that these are correctly calculated, earned and disclosed.
L	**CONTRIBUTIONS AND TRANSFERS IN**
L.1	Concessional contributions • ~~Where an arm's length employer contributes to the fund and contributions are recorded on a cash basis, r~~Review the amounts, ~~method of remittance, f~~frequency and pattern of contributions and if you suspect contributions may be being diverted from the fund seek confirmation of the contribution directly from the employer. • Where the contributions are from a related employer, obtain the employer's trial balance and or general ledger to verify contributions. • Test that contributions have been allocated to the member for whom they were remitted. • 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. • For members > 65, ensure that the work test has been met and the contribution was permitted. • Ensure no-TFN contributions were received.
~~**L.2**~~	~~Non-concessional contributions~~ • ~~Obtain confirmation from the members as to the non-concessional contributions made by them and test that they have been allocated to the member or member's spouse for whom they were received.~~
L.~~3~~2	• Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.
L.~~4~~3	• If transfers in have been received, obtain the roll-over documentation and ensure that the transferee is a complying superannuation fund and correctly recorded as taxed or untaxed. • For members > 65, ensure that the work test has been met and that contributions are employer mandated contributions. • Ensure that all contributions not complying with Regulation 7.04 are refunded within 30 days.
L.~~5~~4	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
L.~~6~~5	Review expenses and other items that may give rise to a contribution as outlined in ATO Rulings and ensure that these are correctly accounted for as contributions.
M	**EXPENSES**
M.1	Perform an analytical review of expenses and assess for reasonableness against your knowledge of the SMSF and in comparison to the prior year's expenditure.
M.2	Vouch material items to invoices, ensuring the expenses are attributable to the SMSF or are apportioned correctly.
M.3	Agree administration fees to the agreement with the administrator.
M.4	Agree management fees to the agreement with the investment manager.
N	**LUMP SUMS AND PENSIONS PAID**
N.1	• Obtain a listing of all benefits paid and reconcile benefits paid ~~between general ledger and bank statement~~to prior year member statement, adjusted for current period transactions. • For each benefit paid, review documentation including minutes or other documents confirming the commencement of a pension, correspondence to the members and rollover institutions and ensure that the benefit was duly authorised.

Ref	Audit Procedure
	• Confirm that each benefit was paid in accordance with the terms of the fund's governing rules. • For death benefits, ~~sight death certificate and~~ confirm if the benefit was paid in accordance with the fund's governing rules and, if applicable, a binding death benefit nomination. • For a total and permanent disability benefit, sight the medical certification regarding the inability of the member to work again. • For a total and temporary permanent disability benefit, sight the medical certification regarding the temporary inability of the member to work. • ~~For each benefit paid ensure that the PAYG obligations have been correctly calculated and remitted by the SMSF.~~ • Ensure that pensions paid are within the minimum and maximum (if a transition to retirement pension) thresholds and that pensions are paid at least once annually, and that a series of payments have been paid over the life of the pension account. • Investigate liabilities at year end to ensure that pensions have been paid, and not just accrued. • ~~Review the terms of the pensions to ensure that the pensions have been calculated and paid in accordance with these terms.~~
O	**TAX**
O.1	Review tax work papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies, including: • Member contributions have been treated correctly as non-assessable unless the SMSF received a notice in accordance with section 290-170 of the ITAA 1997 stating that the member contribution is assessable. • Exempt Current Pension Income (ECPI) from assets used to pay current pensions is treated as non-assessable and an actuarial certificate has been obtained to confirm this if the fund has both accumulation and unsegregated pension assets. • ECPI has been correctly applied to income but not contributions. • If the SMSF derives ECPI, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with Tax Ruling TR 93/17 and section 8-1 of the ITAA 1997. Cash bonuses (not rebates) received on life insurance policies are not included as taxable income. • ~~If the SMSF derives ECPI, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with Tax Ruling TR 93/17 and section 8-1 of the ITAA 1997.~~ • Franking credits from dividends are correctly adjusted. • Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly. • Foreign tax credits are correctly adjusted, note that foreign tax credits may only be claimed to the extent of tax payable on foreign income. • CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount. • Ensure CGT cost base adjustments required by section 104-70 of the ITAA 1997 (relating to differences between accounting and tax distributions from trusts) have been recorded and adjusted correctly. • Non arm's length income has been correctly identified and tax applied at the appropriate rate.
O.2	~~If the SMSF applies AASB 112~~Where deferred tax is reported by the fund, complete the following procedures: • Check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report including: - Deferred tax assets arising from unrealised losses are after discounting. - 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. • Proving the deferred tax assets and liabilities represent the tax effect of timing differences.
O.3	Confirm that tax has been calculated for ordinary income at 15%, unless the SMSF has received a notice advising it is non-complying for tax purposes. Ensure non-arm's length income is taxed appropriately
O.4	Confirm that PAYG instalments and TFN credits paid by the SMSF during the period have been correctly identified and applied against the current tax liability.

P	**GOING CONCERN**
P.1	As the members of a defined contribution fund absorb any losses incurred, it is rare for these types of funds to have going concern issues. However, a going concern can arise when a fund has been wound up and the members were paid benefits exceeding their entitlements~~ or in the case of defined benefit funds, if the accrued benefits certified by the actuary exceed the net assets of the SMSF~~. Complete the following procedures in relation to going concern: • Review the net asset position of the fund to determine if a net asset deficiency exists. ~~• Review the actuarial valuation and assess the adequacy of any remedial action being taken by the employer-sponsor or the trustee to cover the deficiency.~~ • Consider a modification to the auditor's report.
Q	**SUBSEQUENT EVENTS**
Q.1	Identify any subsequent events which would affect the financial report~~ of the current or future periods~~, including any adverse events impacting investments, significant investment fluctuations and plans to wind up the fund that should be disclosed in the financial reports.
R	**OTHER AUDIT CONSIDERATIONS**
R.1	If there have been any transactions with related parties, ensure that these matters have been appropriately addressed and reported in accordance with the accounting policies adopted by the SMSF.
R.2	Check whether material commitments and contingencies are properly disclosed by reviewing or obtaining: • Trustee minutes. • Solicitors' representations. • Trustees' representations.
R.3	Consider the risk of fraud in the design of audit procedures and when evaluating trustees representations. Make reference to the requirements of ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.
S	**TRUSTEE REPRESENTATIONS**
S.1	Obtain written representations from the trustee.
S.2	Evaluate that the representations appear reasonable and consistent with the other audit evidence and conclusions.
S.3	If necessary, seek corroborative evidence on trustee representations.
T	**COMMUNICATIONS WITH TRUSTEES**
	Check that all matters of governance interest arising from the audit are communicated to the trustees on a timely basis, including: • Responsibilities of the auditor in relation to the financial report audit, usually communicated in the engagement letter; • Overview of the planned scope and timing of the audit, usually communicated in the engagement letter but not in a level of detail that may compromise the effectiveness of the audit; • Auditors views about significant findings from the audit engagement; ~~•~~ Significant matters discussed with ~~management (if management are not~~ the trustees~~)~~ ~~including~~include ~~:~~ - u~~U~~ncorrected misstatements aggregated by the auditor during the audit that were determined by the trustees to be immaterial, both individually and in the aggregate, to the financial report taken as a whole; ~~- Corrected misstatements that were determined by the trustees to be material to the financial report taken as a whole.~~ • Confirmation as to the independence of the auditor.

Appendix ~~6~~5

(Ref: Para.~~48~~ 49)

ILLUSTRATIVE EXAMPLES OF THREATS TO INDEPENDENCE IN A SELF-MANAGED SUPERANNUATION FUND

The following table, based on principles stated in APES 110 *Code of Ethics for Professional Accountants*, 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. Assurance practitioners are expected to be fully compliant with the requirements of APES 110 as required by Regulation 9A.06 of the SISR.[240]

	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
1. An auditor is a trustee or director of a corporate trustee and/or a member of the fund	X	X		X		No safeguards are available which would enable the practitioner to perform audit work, as this involves clear self-interest threats. An auditor who undertakes such an engagement is in clear breach of their professional and ethical obligations.
2. A sole practitioner prepares a SMSF's accounts and performs the financial audit and compliance engagement.	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 withdraws from either the accounting or audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
3. A sole practitioner signs the auditor's report for a SMSF and uses staff to perform the financial audit and compliance engagement work and to prepare the SMSF's accounts.	X	X			X	No safeguards are available which would enable the practitioner to sign the auditor's report as well as supervising the accounting work, as the practitioner is ultimately responsible for the accounting work and this amounts to reviewing their own work. The auditor withdraws from either the accounting or audit engagement.
4. A sole practitioner provides financial advice and audits the SMSF.	X	X	X			No safeguards are available which would enable the practitioner to perform both the financial advisory and audit work, as this involves the auditor in assessing the compliance implications of their own advice. The auditor withdraws from either the financial advisory or the audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
5. A two partner practice in which one partner is asked to audit the SMSF of which the other partner is a trustee.	X	X			X	No safeguards are available which would enable the practitioner to perform audit work, as this involves a clear self-interest threat. The auditor would not undertake the audit engagement.
6. A two partner practice in which one partner prepares the SMSF's accounts and the other partner conducts the audit.	X	X			X	Threats may be overcome by safeguards including removal of staff who prepare the accounts from the audit team, implementing policies and procedures prohibiting those in the firm who provide accounting services from making decisions on behalf of the SMSF, requiring source data and underlying assumptions to be generated by the SMSF, obtaining SMSF approval for any journal entries, obtaining the SMSF's acknowledgement of their responsibility for

240 In addition to these examples, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide*, Fourth Edition, February 2013.

	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
Common staff work on both engagements.						the accounting work performed by the firm and disclosing to the trustees the firm's involvement in both engagements.
7. A two partner practice where one partner provides financial advice to the SMSF and the other partner audits the SMSF and prepares the SMSF's accounts.	X	X	X			Threats may be overcome by applying safeguards which include each of the two partners performing one of the engagements, with appropriate segregation of the engagement teams, and the firm withdrawing from the third engagement. For example, if one partner conducts the financial advisory work, the second partner prepares the accounts and then the firm withdraws from the audit and segregates the staff working on the engagements which are retained. Additional safeguards may include: implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF and ensuring that the individual providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.
8. A firm prepares the SMSF's annual return and also undertakes the audit of the SMSF.						Where the client takes responsibility for the SMSF annual return including any significant judgements, it will not generally create threats to independence.
9. A sole practitioner audits numerous SMSFs but they are all administered by the same service provider who engages the auditor on behalf of the trustees. The sole practitioner is very reliant on fees generated by referrals from the service provider.	X				X	Safeguards include expanding the client base so that reliance on the administrator is reduced, declining to accept any further audits from the administrator, obtaining external quality reviews and ensuring that the practitioner has direct access to the trustees of each SMSF, so that matters arising during the audit may be communicated without fear of intimidation.
10. A member of the audit engagement team 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.
11. The auditor has provided accounting advice in relation to a material transaction of the SMSF which was then entered into on the basis of that advice.		X				Technical assistance on accounting principles and advice an accounting issues often form part of the normal audit process and may promote fair presentation of the financial report and may not create a threat to independence. However, in certain instances, the advice may have influenced the decision making of the SMSF and safeguards may include segregation of the partners and staff providing accounting advice from the audit team or withdrawal from the audit engagement.
12. A 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 transferring the engagement to another partner within the firm or quality control 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.
13. A practitioner or firm						The practitioner has implemented appropriate safeguards to avoid a self-review

	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
providing administrative services to numerous SMSFs, outsources all of the SMSF audits to one approved SMSF auditor.						threat by referring the audit work to another auditor and it is the responsibility of that auditor to ensure that they are not as reliant on the referrals from the practitioner as to create a self-interest or intimidation threat.