Australian Government
Auditing and Assurance Standards Board

AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**4**
Meeting Date:	21 April 2020
Subject:	ASRE 2410 update
Date Prepared:	7 April 2020

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda Item Objectives

1. For the AUASB to consider the ASRE 2410 joint sub-committee's recommendation for the description of the auditor's responsibility in relation to going concern in the interim review report.

Background

2. At its meeting on 12 September 2018 the AUASB agreed consistent with the principle of harmonisation with New Zealand[1], to update ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Enti*ty (ASRE 2410) concurrently and consistently with the NZAuASB's equivalent standard, NZ SRE 2410. Importantly it was agreed the scope of this update is limited to Auditor Reporting conforming amendments to facilitate consistency in reporting, and NOCLAR.

3. When developing the exposure drafts the AUASB and the NZAuASB had different views on how to describe the auditor's responsibility in relation to going concern in the review report. The AUASB's view was that the responsibility has to align to the procedures in ASRE 2410 given the nature of a review engagement. This is consistent with the *responsibilities* described in the annual audit report, where the words are lifted from the ASA 570 *procedure/requirement*. The NZAuASB's view was that the procedures are not the responsibility and they are performed to conclude based on anything coming to the auditors attention, on going concern. The different wording was exposed in both jurisdictions to gather feedback.

4. In summary the feedback received from stakeholders was:

[1] The AUASB and the NZAuASB have a mandate to harmonise standards where applicable, unless there is a compelling reason not to. Compelling reasons for differences between Australian and New Zealand standards are where:
(a) Different regulatory requirement apply; and/or
(b) Different practices are considered appropriate (including the use of significant terminology).

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(a) It is appropriate to include the auditor's responsibility in relation to going concern in the review report and that the AUASB and the NZAuASB's standards must be aligned on this matter.

(b) There wasn't overwhelming support for either options included in the exposure drafts. In particular that the underlying procedure from ASRE 2410 did not describe the responsibility (AUASB's option) and that the auditor does not conclude on going concern (NZAuASB's option).

5. Refer to Meeting papers for the 19 September 2019 and the 3rd December 2019 for detailed analysis of the feedback received.

6. The AUASB and NZAuASB agreed to form a sub-committee consisting of Members and technical staff to work together to progress this project.

7. The subcommittee met on 11 November 2019 and the NZAuASB members expressed a preference to remain silent due to concerns that describing the responsibility in the review report may not improve the communicative value of the report and may add to the expectation gap. The AUASB members acknowledged that this may be a way forward, given (1) the constraints of the scope of the project, (2) the technical nature of the matters that contribute to the difficulty of expressing these responsibilities in way that does not add to the expectation gap, and (3) the potential imbalance in volume of words that could inadvertently direct more attention than appropriate to the going concern responsibilities over and above other responsibilities. The AUASB members expressed a desire to further explore words. The sub-committee agreed that the technical staff and Carolyn Ralph (AUASB member) would continue exploring wording, and if other guidance would assist such as FAQs or a flowchart.

Matters to Consider

Sub-committee recommendations

8. The technical staff and Carolyn Ralph have continued to explore words and worked on developing a flowchart to see if that was helpful.

9. The sub-committee met on 20 March 2020 and agreed:

(a) they had explored all options in relation to wording for the review report based on extant ASRE 2410;

(b) the complexity of going concern in a limited assurance environment, using extant, and avoiding being misleading results in lengthy wording that may inadvertently create an imbalance in the review report. Lengthy wording could have the unintended consequence of elevating the importance of going concern when considered in context of the entire auditors responsibilities and reporting.

(c) more work would be needed to test whether any proposed wording (short or long wording) may have unintended consequences. This is especially important in the current context of the Covid-19 pandemic.

10. The joint sub-committee unanimously AGREED to recommend to both the AUASB and the NZAuASB to retain the extant approach, i.e., to remain silent in the interim review report on the auditor's going concern responsibilities.

11. The sub-committee agreed there was merit in agreeing a flowchart to assist auditors and requested that the technical staff and the respective Chairs finalise this.

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Action for the AUASB: Does the AUASB agree with the recommendation of the sub-committee?

Management's Responsibilities for going concern

12. The 2410 ED included a description of both management's and the auditor's responsibilities for going concern in the review report. These are not in ASRE 2410 extant were added for consistency with ASA 700. The proposed wording in 2410 ED is:

    In preparing the half-year financial report the directors are responsible for the assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative to do so.

13. If the AUASB accept the sub-committee's recommendation above, the ATG's recommendation is that the description of management's responsibility for going concern should also be removed from the review report.

Action for the AUASB: Does the AUASB agree with the ATG's recommendation to not include the description of management's responsibility for going concern in the review report?

NZAuASB deliberations

14. At its meeting on 9 April 2020 the NZAuASB considered and agreed with the sub-committee's recommendation. The NZAuASB also agreed to not include the description of management's responsibilities for going concern in the review report.

15. The NZAuASB approved ISRE 2410 subject to the AUASB's deliberations on this matter, and approval of ASRE 2410 in June.

Next steps

16. The ATG will continue with updating ASRE 2410 and will present the standard and Basis for Conclusions for approval at its June 2020 meeting.

Material Presented

Agenda Item	AUASB Board Meeting Summary Paper

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Australian Government
Auditing and Assurance Standards Board

AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**5.0**
Meeting Date:	21 April 2020
Subject:	GS 009 – Auditing Self-Managed Superannuation Funds (September 2015) Update and Draft Guidance
Date Prepared:	14 April 2020
Prepared by:	Marina Michaelides

[X] **Action Required** [ ] **For Information Purposes Only**

Agenda Item Objectives

1. To provide an update to the AUASB on the finalising the revision of GS 009 – *Auditing Self-Managed Superannuation Funds* (September 2015) and recommend to the AUASB to approve and issue revised GS 009 subject to final internal QA processes.

Matters to Consider

Part A – General

Background

1. In February 2019 the AUASB received correspondence from both the ATO and CPA Australia / CA ANZ on potential areas for consideration in the revision of GS 009. These areas have been considered as part of the project plan.

2. The detailed project plan was approved by the AUASB in December 2019. The Board sponsor for the project is Justin Reid.

3. The AUASB have secured an external contractor to complete the detailed revision of GS 009 working in tandem with a senior project manager to oversee the updates to the Board and to ensure due process is met.

4. The ATG met with the working group to discuss a first draft of the revised GS 009 in mid-December 2019.

5. The ATG had a follow up meeting with the working group to discuss the Phase 2 draft on 25 March 2020 and progress on the key issue areas as summarised in spreadsheet at **Agenda Item 5.1**.

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Project Plan Update

GS 009 is undergoing an updating to address:

- ATO, CPA & CAANZ submission letters outlining areas for improvement; and
- Australian Taxation Office (ATO) guidance on reciprocal auditing arrangements and recent litigation cases; and
- the experience of practitioners in the changing SMSF market and the application of GS 009.

Progress since March 2020 AUASB Meeting

1. Phase 2 - drafting on revised GS 009 continued in March and April including:

   a. based on detailed comments received from the ATO and CPA / CA ANZ.

      Refer spreadsheet of key issue areas at **Agenda Item 5.1**. Areas in green have been considered in the revised draft of GS 009 provided to the AUASB. Any areas not highlighted in green have been considered and a comment included if they have not specifically resulted in a change to the GS; and

   b. comments received from the ATO, CPA / CA ANZ, contractor at working group meeting held on 25 March 2020 and subsequent have all been addressed and considered. If proposed changes were not made or final outcomes were different from those proposed these have been discussed directly with the stakeholders.

Key Issues Discussed with Working Group (ATO, CA ANZ, CPA & ASF (practitioner))

2. The 2nd working group meeting was held on 25 March 2020. At this meeting the following areas were discussed, and a page turn of all proposed changes to revised GS 009:

a. Key Areas addressed and rolled forward from Dec WG meeting:

i. **Special Purpose Reporting (SPR) vs General Purpose Reporting Frameworks (GPFS):**

It remains the trustee's responsibility for the selection of the accounting framework and the auditor's responsibility to assess the appropriateness of the framework[1] as part of preconditions of accepting an engagement for the individual SMSF. Audits of funds from the planned implementation date require an additional check on the appropriateness of the accounting framework adopted by the SMSF in light of the ED. Accordingly, extra consideration will be required when applying GS 009 for the audit of a SMSF that is required to prepare GPFS. In the absence of the specific trust deed indicating the preparation of financial statements in accordance with AAS, legislative requirements will prevail. Refer paragraphs 17-18 of revised GS 009.

ii. **Use of technology in a SMSF audit** and the impact on audit procedures and documentation. Reliance on platforms, direct data feeds and further audit procedures required to obtain sufficient appropriate audit evidence. Refer paragraphs 86 to 91 of revised GS 009.

iii. **Opening Balances / ASA 402 Qualifications**– The ATO are prepared to allow Part A qualifications with regard to auditor's not being able to obtain sufficient appropriate audit evidence with respect to

[1] See ASA 210 paragraph 6(a) which establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.

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verifying opening balances not to be reported to ATO. The ATO appreciate this is a common concern within the industry and didn't think the exemption would pose any risk for SMSF reporting.

The ATO were also considering whether to exclude Part A reporting in relation to SMSF investments made by a custodian as a result of applying ASA 402, however after speaking with other auditors and the AUASB the ATO are not convinced it was a common issue being experienced by the industry.

The ATO does acknowledge that some auditors are nevertheless concerned about having to report these types of qualifications and have released an article addressing these concerns by confirming they (The ATO) wouldn't normally select a SMSF for an audit based on a Part A qualification.

https://www.ato.gov.au/Super/Sup/2020-SMSF-annual-return---Part-A-qualificationchanges/

Refer paragraphs 142 to 156 and 178 to 184 of revised draft GS 009.

b. Further suggested areas for change in GS 009 (refer **Agenda Item 5.1**) as provided by the working group.

GS 009 is also subject to review by the AUASB Sponsor, Justin Reid, and the ATG will endeavour to deal with any comments on the final revised GS 009 prior to the 21 April Board meeting.

Further Matters to Note

1. Due to the considerable amount of changes to ISAs / ASAs currently being considered on a number of other projects of the IAASB/AUASB e.g. ISQM 1, 2 and ISA 220, ISA 315 and ASA 102 and the conforming amendments, we expect there may be impacts on the revision of GS 009 remaining up to the date of issue, as the guidance draws on the entire suite of ASAs and ASQMs.

   As a result, references to ISQM 1, ISQM 2 and ISA 220 in their new form have been made within the revised GS 009 even though these standards have not yet been approved internationally. The reason for this being that these standards are likely to be approved and issued as a package in June 2020 making GS 009 out of date. The AUASB will need to determine if they are satisfied with this approach considering that revised GS 009 may be issued before ISQM 1, ISQM 2 and ISA 220 are finalised internationally.

6. Paragraph references within the guidance statement may still need to be updated post the QA process and changes from Board sponsor.

Project Deliverables – Next steps post April AUASB Meeting

1. W/C 14 April - ATG QA to be completed prior to Board meeting on 21 April. Any proposed comments / changes to be addressed post 21 April Board meeting.

2. OBPR Regulatory Impact Analysis (RIA) completed and submitted on 7 April 2020. OBPR yet to issue clearance as at 14 April.

3. W/C 27 April - Final clearance from Chair to issue GS 009 post QA and subject to AUASB approval at 21 April Board meeting.

AUASB Technical Group Recommendations

Subject to changes from the AUASB and internal QA processes being completed the ATG recommend that the AUASB approve revised GS 009 to be issued.

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Material Presented

Agenda Item 5.0	AUASB Board Meeting Summary Paper
Agenda Item 5.1	GS 009 - Spreadsheet of Key Issue Areas Addressed
Agenda Item 5.2	GS 009 – Revised draft (clean)
Agenda Item 5.3	GS 009 – Revised draft (marked up)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB to provide comments on final revised GS 009. Subject to any changes and ATG internal QA processes we recommend AUASB approve to issue revised GS 009.	Comments or suggested changes from AUASB on final revised GS 009.	AUASB	21 April 2020	

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Topic	Reference	Update to be considered (may not be complete)	Comments
Independence examples	Appendix 5	Review scenarios provided to ensure they reflect the intent of the Code of Ethics and ATO's approach to independence.	Given the APESB/JAB independence guide is being updated for the new international independence standards then I believe it might be worthwhile having one source of commentary about independence for SMSF auditors. It would good to have agreement about this between the APESBB, AUASB and the accounting bodies.
Independence examples	Appendix 5	Reconsider the wording of scenario 2 & 4 regarding "reciprocal arrangements" as the ATO's expectations are that SMSF auditors will apply more sophisticated approach to independence and consider whether such arrangements create a self-interest threat to independence if they are reliant on reciprocal audits from one firm/ sole practitioner. Existing wording: "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."	The guidance itself already reflects this concern - GS 009 para. 37 states that a self-interest 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". - GS 009 para. 46 states "Where the audit firm or an individual partner is unduly reliant on the audit fees from a particular 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."
ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations		Cover more thoroughly the difference between type 1 & 2 reports	
ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations		Clarify that to rely on material data feeds a type 2 report is needed	
ASAE 3402 Type 1 & 2 Reports on Controls at Service Organisations		Clarify what to expect from different service providers by expanding on para.25 and addressing IT controls in more detail in addition to the guidance provided in paras 119-123 and 172-177.	These section of th guidance have been updated to address currnet practice with IDPS operators and ASA 402 Type 2 reports.
Documentation	Appendix 4	Highlight the documentation requirements to support the work done in the audit by including the need for documentation and possibly the type of documentation to be retained for each of the sections of the financial audit procedures listed in Appendix 4.	
Appendix 3 - checklist - E1 contributions	Appendix 3	Need to ensure all information is correct and add downsizer contributions.	
Revisions to AUASB Standards	Throughout the GS	The vast majority of the AUASB Standards have been revised since GS 009 was last amended in 2015, so references, approach and terminology need reviewing against the current suite of standards.	References and changes in approach and terminology to AUASB standards need to be checked and updated where required.
Independence	Appendix 5	The independence examples included in Appendix 5 do not all reflect the intent of the Code of Ethics and ATO's regulatory approach to independence, including their expectations regarding "reciprocal arrangements" between auditors.	Please see comment above.
Changes to the Superannuation legislation	Throughout the GS	Legislative changes, particularly the changes effective from 1 July 2017, need to be reflected in GS 009 and the audit implications considered.	Paragraph 4 - This may need to be changed if the legislation is passed that increases members from four to six. This also affects paragraph 11. Paragraph 5 – currently states that audits should be carried out on a yearly basis. This may need to be changed if the 3 year audit cycle proposal is introduced.
New and amended ATO views and interpretations	Throughout the GS	The ATO communicates its interpretation of how the SMSF and their auditor should meet their obligations from time to time and so the guidance statement needs to be consistent with the ATO's expressed views.	
Reports on Controls at Service Organisations		Clarification of the difference and appropriate use of ASAE 3402 Type 1 and 2 reports on Controls at Service Organisations and when those reports can enable reliance on material data feeds could assist auditors.	
Investment strategy and valuations		Clarification of the nature and extent of work necessary with respect to the SMSF's investment strategy and asset values, particularly in light of the recent court decisions in Cam & Bear Pty Ltd v. McGoldrick [2018] NSWCA 110 and Ryan Wealth Holdings Pty Ltd v. Baumgartner [2018] NSWSC 1502.	
Documentation	para 22 e	Highlight the documentation requirements to support the work done in the audit.	Could we add how important it is for auditors to make notes in their audit files about the conclusions they reached and provide an example eg. if you consider that rental income received by a fund is at arm's length record this conclusion in your file.
Reference to special purpose financial reports	para. 1, 22(ff), 134, 140(c), 163, 176, 214, 254, Appendix 2	If SPFR option withdrawn by AASB commencing 1/7/20 or 1/7/21, need to amend.	AASB ED has been approved refer to new paras 16 to 19 of revised GS 009.
Taxable/tax free splits based on contributions or benefits transferred or rolled over		There is no consistent reference to taxable/tax-free splits.	
Continuing Professional Development requirements	para 16, 17	Ensure consistency bet GS009, Prof assoc regs (eg CA ANZ Reg CR 7) and JAB publication (competency of SMSF auditors)	CPA/CAANZ to discuss ongoing need for JAB publication.
Immediate reporting vs ATO interpretations	para.18(c)	SISA requires reporting contraventions as soon as practicable but ATO interpretation 28 days.	
Update history and plan for adjustments	para. 22	Reference to revised AUASB standards	Refer to CPA point above
Re-word for clarity	para. 22(g)	Not all SIS law breaches will lead to penalties that will lead to additional tax liabilities. Need to re-word for greater clarity	Para 25(g) has been appropriately updated to calriy this wording.
Communication with those charged with Governance	Paragraph 22 (h)	It could be worth mentioning *McGoldrick* and *Baumgartner* in this paragraph as both cases are examples of why it is important for auditors to directly communicate with the trustees, especially with respect to significant issues.	
Re-word for clarity	para. 22(n)	Clarify if transaction data-feeds and source fall into GS007 or another standard	
Audit Evidence	para 22(p)	Further guidance here on importance of obtaining and keeping evidence in the audit files as this is an ongoing issue and ATO are consistently refering it to ASIC.	Clarification required with respect to the ATO's comment about the importance of obtaining and keeping the evidenced in the audit file i.e. source documents. For the AUASB this highlights issues around electronic access to banking information or the retention of hard copy bank statements as an example.
Access previous auditor's papers	para.28	Clarify how to access previous auditor's working papers.	Under CA ANZ public practise regs the previous auditor is not obliged to provide access to documentation (but is encouraged to do so as a professional courtesy).
Independence subsection	pars 33 to 49	Refer to comment above about revised AASB independence guide	
Actuarial certificate requirement	para. 130	ATO interpretation: Actuarial certificate needed for period fund in retirement phase. This paragraph talks about the requirement to have an actuarial certificate, as there are changes to these requirements from 1 July 2017 this para will need re-wording.	Requires revision for ATO interpretation and 2016 legislative amendments
Communication with prior auditor, seems highly problematic	para.145	Clarify challenges	Refer above re: CAANZ public practise regs
Risk of fraud, how determined?	para 153		
Confirmation requests	para. 154 & 155		Provision of bank account data and confirmation of balances
Receivables and Prepayments	para 179	Include a reference to SMSFR 2009/3 *Self-Managed Superannuation Funds: application of the SISA to unpaid trust distributions payable to an SMSF*.	
Liabilities	para 184	Could include an extra bullet point 'Loan documents for LRBAs do not specify the loan is limited in recourse'	
Reserves	para 192 to 200 and 352	In response to the new measures and the potential to circumvent the caps through the use of reserves, the ATO published	
ATO view on reserves?	Para 193 onwards	SMSF Regulator's Bulletin SMSFRB 2018/1 The use of reserves by self-managed superannuation funds http://ato.gov.au/law/view/document?DocID=SRB/SRB20181/NAT/ATO&PiT=99991231235958	

Valuation and Allocation of Assets	para 163-171	This relates to valuation of assets. Given the Baumgartner case, can we add something here to remind auditors that if they do not get evidence from the trustees to support the market value reported in the financials that they should report (if it meets the reporting criteria) this to the trustees in writing and to the ATO in an Auditor/Actuary Contravention Report (ACR).	Paragraph 169 – consider adding an example such as 'For example, where a fund has an unlisted share or trust investment, the auditor should modify their opinion if they are unable to obtain satisfactory confirmation of the value of the investment'. (relevant in light of the recent *Baumgartner* and *McGoldrick* cases).
Unallocated contributions	Para. 198 & footnotes	ATO website documentation and required reporting	
Anti-detriment payments	Par 199 & 338	Update to take into account new legislation	There will no longer be a need for a SMSF to have an anti-detriment reserve. This is because the deduction is no longer available in relation to super lump sums paid to a spouse, former spouse or child of the deceased member on or after 1 July 2019 or where the deceased member died on or after 1 July 2017.
Downsizer	Para. 204	Downsizer contribution needs to be added	Some of these contributions such as directed termination payments are no longer available and there are new contribution such as the downsizer housing contribution that could be added here.
Non-resident super funds	Para. 212	Taxed at top marginal rate - needs mentioning	
Classification: Allocated to members correctly?	Para. 212	Add this to bullet points	
TSB references	Para. 218	Total super balance thresholds from 1/7/17	Not appropriate in this section
Non-arm's length expenses (NALE)	Para. 221	ATO guidamce on NALE	What to do about proposed legislation amendment (lapsed due to 2019 election)? Likely to be reintroduced in late 2019.
Insert reference to ATO ruling on subject	Footnote 81		
Update	Para.226 & 227	1/7/17 legislative amendments	What to do about proposed 2019 budget announcement?
Treatment of revisionary pensions	Para. 233	1/7/17 legislative amendments	
Fund's financial position	Para. 238	Could this item be deleted here given it is referred to in par 361	
Tax liabilities	Para. 246	Add to bullet points	
ASA 705 - check for changes	para 253		
Delivery of auditor's report to TCWG	Para. 261-265	Update for new standards	
Check Government Gazette	para.275	Another source of information on trustee to mention.	
Investment Strategy	para 280-283	Consider whether it could be worthwhile making reference to Baumgartner's Case here as highlighting the importance of the need for an auditor to verify that the Fund's investments are in line with its strategy.	
Aussiegolfa v. ATO test case in Supreme Court	Para.286 & 288	ATO lost case re sole purpose test - consider impact.	
Reference to investment strategy	Para. 293	Revise wording - discussion here is about sole purpose test not investment strategy	
Comments here can also apply to related companies	Para. 294	Revise wording	
In house assets exemption	Para. 305 & 306	Improve wording	
Non-arm's length income par	Para. 312-314	Consider amendment for NALE rules	What to do about proposed legislation amendment (lapsed due to 2019 election)? Likely to be reintroduced in late 2019.
Add: "or other appropriate and verifiable documentation"	Para. 313		
Through a closely held entity	Para. 315+	Clarify - lending through interposed entities	
Safe harbour rules & NALE	Para 327	ATO limited recourse borrowings, safe harbour and NALE	Required further explanation and that safe harbour rules are updated every year
Inspecie benefits paid, Cash only for …	Para.331 & 332	Update for first home savers benefits, financial hardship	ATO admininstration of some early release rules
Unsuitable asset valuation to determine min & max pension payment	Para.338; Footnote 177	Not using market valuiations - issue to be addressed	Need to work out best way to refer to ATO document (assuming it is still being published)
Correct grammar	Para. 341		
Incorrect description of regs	Para. 342 No?	Current legislation re conditions of release	Changed from Human Services to ATO
Incorrect: Control of fund, Validity of Binding Death Benefit Nomination (BDBN), Endurig Power of Attorney (EPoA) valid?	Para. 345+	Current legislation re conditions of release	Many other issues in relation to death benefits need to be explained
Requires re-write	para.370	Generally insurance benefits need to be paid out of fund	But to whom varies depending on type of insurance
Contribution Restrictions	para 358+	Will need updating if law is passed relaxing the work test for those over 65 years of age.	
TSB rules about acceptance of NCCs	para. 361 +	1/7/17 legislative amendments	
Change in contribution rules	para. 358 +	2018 & 2019 Federal budget announcements	2018 announcement regulated; How do we handle proposed 2019 changes?
ATO webpages keep moving	Footnotes 175, 177, 188 & 189		Appear correct
Downsizer; Contributions for new retirees	Para. 343	Add to contributions types	
TSB issues	Para. 350	Total Super Balance interaction with non-consessionary contribution cap	
Use of reserves	para. 351	Re-word: contributions are not held in reserves; counted as concessional contribution	
Solvency	Para. 353-354	Does this need to be repeated here?	
Rep letter provided before or after audit?	Appendix 2	Before audit	Revise to take into account recent negligence court cases - in one case draft rep letter and engagement letters were provided with draft annual accounts. This was used against auditors in particular case. Should GS009 detail ideal workflow however this will be against typical industry practise?
Asset valuation	Appendix 2 point 7	Appendix	Should the draft wording be tightened to make it crystal clear that the trustee accepts all responsibility for the valuation of assets?
Uncorrected misstatements	Appendix 2 point 10		Should this be removed?
Pension provisions in trust deed	Appendix 3, G.1	1/7/17 Super changes	
Reserves	Appendix 3	Current ATO interpretations and reserve strategy not inconsistent with funds overall investment strategy	
Super Transfer balance account report (TBAR)	Appendix 3		
Arm's length rule	Appendix 4	ATO interpretation tightens arm's length rule up.	
Asset valualtions	Appendix 4 F.5 & L.1		Does procedure need to change for different asset classes esp closely held entities?
Do you need this? Asset valuations	Appendix 4 N.1	Medical certs etc of incapacity benefits	
Tax calcs	Appendix 4 O.1	Is auditor expected to complete this level of analysis of tax work?	
New terms to be introduced	Throughout the GS	The superannuation new measures introduced new terms and rules about Transfer Balance Caps, Total Superannuation Balance, Commutation authorities, Transfer Balance Account Reporting, and release authorities for Excess Transfer Balance Determinations. These new terms should be introduced at relevant parts of the Guidance Statement.	

FROM DRAFT MARK-UP

ATO - Type 2 and audit evidence	Paras 179 -	Reworded	
IHA ungeared trust	Para 189	UPE may make non-geared unit trusts in-house asset per SMSFD 2008/1 - Self Managed Superannuation Funds: how does the happening of an event in subregulation 13.22D(1) of the Superannuation Industry (Supervision) Regulations 1994 affect whether a self managed superannuation fund's investments in related companies or unit trusts are in-house assets of the fund? (Published on 20 February 2008)	Receivables section not compliance

Agenda Item 5.2
AUASB Meeting 116 – April 2020
Clean version

GS 009
(April 2020)

Guidance Statement GS 009
Auditing Self-Managed Superannuation Funds

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

Draft

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

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on certain procedural, entity or industry specific matters related to the application of an AUASB Standard(s).

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).

Guidance Statement *Auditing Self-Managed Superannuation Funds* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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CONTENTS

AUTHORITY STATEMENT

Draft

Draft

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.

This Guidance Statement does not prescribe or create new requirements.

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Dated: <TypeHere>

R Simnett AO
Chair - 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) an audit of a self-managed superannuation fund's (SMSF's) financial report[1], (financial audit) prepared as 'Special Purpose Financial Statements'(SPFS); and

   (b) an 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 audits of Australian Prudential Regulation Authority (APRA) regulated superannuation entities.[2]

Issuance Date

3. This Guidance Statement is issued on XXXX 2020 by the AUASB and replaces GS 009 *Auditing Self-Managed Superannuation Funds*, issued in September 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[3] 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 a fund's governing rules, which include the trust deed and applicable 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"[4] under the SISA.

5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),[5] 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.[6] The auditor reports to the trustees[7] in the "approved form", as issued and updated from time to time, by the ATO,[8] which includes opinions under two sections:

   (a) Part A: Financial report; and

[1] Section 35B of the SISA requires the preparation of "accounts and statements," expanded by Part 8 of the SISR. For a detailed discussion, refer to Trustee Responsibilities in this Guidance Statement. .

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

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

[4] 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.

[5] Approved SMSF auditor is defined in paragraph 13.

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

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

[8] 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 is available from the ATO's website www.ato.gov.au/Superfunds.

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(b) Part B: Compliance report.

6. This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which the auditor has with respect to conducting SMSF audits, 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.

(d) Appendix 1 – 5 which provide sample templates, checklists and examples of the application of the independence requirements.

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.[9]

10. This Guidance Statement does not provide guidance on auditing a defined benefit fund[10] as these funds are not prevalent as SMSFs.

Definitions

11. A SMSF meets the definition of a SMSF of the SISA[11] 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

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

(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

(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 an exception and the trustee has the skills to perform the service. [12]

12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA[13] 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[14] 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.

13. An approved SMSF auditor[15] is a person who is registered as an approved SMSF auditor with ASIC[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 entity.

Trustees' Responsibilities

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 relevant legislation, such as the taxation legislation affecting SMSFs. Certain covenants affecting the behaviour of the trustees of a

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12 Section 17B of the SISA allows for exceptions in relation to remuneration of trustees.
13 See subsections 17A (3) & (4) of the SISA.
14 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*.
15 See subsection 10(1) of the SISA.
16 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.

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SMSF are deemed to be contained in the SMSF's governing rules under section 52B and 52C of the SISA, which are in summary to:

(a) act honestly;

(b) exercise care, skill and diligence;

(c) act in the best interests of beneficiaries;

(d) 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;[17]

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

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

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

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

The trustees' compliance responsibilities are summarised on the SMSF page of the ATO's website.[18]

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 for lodgement of the SMSF annual return.[19]

Financial Reporting and Accounting Standards applicable to SMSFs

16. Accounting and financial reporting by SMSFs are governed by:

(a) AASB 1056 *Superannuation Entities* from 1 July 2016 (AAS 25 *Financial Reporting by Superannuation Plans*(superseded*)* and other applicable Australian Accounting Standards, including the Australian International Financial Reporting Standards (AIFRS);

(b) The SISA and the SISR;

(c) ATO publications and guidelines;

(d) The Fund's Trust Deed; and,AASB 2020-2 March 2020

17. SMSFs, where the members are also the trustees, are generally not considered reporting entities and as such prepare a special purpose financial report, and would not typically adopt AASB 1056 *Superannuation Entities*. In March 2020, AASB 2020-2- *Amendments to Australian Accounting Standards - Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* was issued. The standard removes the ability of certain for-profit private sector entities to self-assess their reporting requirements and prepare special purpose financial statements with effect from 1 July 2021.

[17] See regulation 4.09A of the SISR.
[18] See https://www.ato.gov.au/Super/Self-managed-super-funds
[19] See regulation 8.02A of the SISR.

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18. In accordance with the Standard, SMSFs are required to prepare general purpose financial statements where their "constituting, or other documents, created or amended, on or after 1 July 2020, specifically require financial statements to be prepared in accordance with AAS"[20].

19. It remains the trustee's responsibility for the selection of the accounting framework and the auditor's responsibility to assess the appropriateness of the framework[21] as part of the preconditions of accepting an engagement for the individual SMSF. Audits of funds from 1 July 2021 require an additional check on the appropriateness of the accounting framework adopted by the SMSF in light of AASB 2020-2. Accordingly, further consideration may be applicable when applying GS 009 for the audit of a SMSF that is required to prepare financial statements under the general purpose financial reporting framework (GPFS). In the absence of the specific trust deed indicating the preparation of financial statements in accordance with AAS, legislative requirements prevail.

Financial statements prescribed by SISA and SISR

20. The financial statement formats for SMSFs are set out in the SISA s. 35B and the SISR r. 8.01. SISA. Under section 35B, most SMSF are required to prepare an operating statement and a statement of financial position[22]. Regulation 8.02B requires financial statements to record assets at their market value.20. SISA s. 35B also requires the financial statements to be signed by two signatories, except in the case of a single member fund with a sole director corporate trustee company, where one signatory is permitted.

21. The measurement and recognition criteria applied to SMSFs are at the discretion of the trustee; however, the trustee must take into account:

    (a) the trust deed requirements;

    (b) the member structure; and

    (c) SISA and SISR requirements.

22. ASA 260 *Communication With Those Charged With Governance* requires auditors to communicate their view's about 'significant qualitative aspects of the entity's accounting practices" and provides examples of matters that may be included in that communication including the appropriateness of the accounting policies to the circumstances of the entity being audited. The auditor will determine the appropriate form for this communication which may include the audit management letter.

Auditor's Responsibilities

23. The professional obligations of approved SMSF auditors under the SISA[23] are to:

    (a) complete the continuing professional development requirements prescribed by the regulations;[24]

    (b) hold a current policy of professional indemnity insurance;[25]

    (c) comply with:

20 https://www.aasb.gov.au/admin/file/content105/c9/AASB2020-2_03-20.pdf
21 See ASA 210 paragraph 6(a) which establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.
22 Regulation 8.01 SISR states that some defined benefit SMSFs are excluded from preparing financial statements under section 35B if the trustee prepares a statement of net assets and a statement of changes in net assets for the fund.
23 See subsection 128F of the SISA.
24 See regulation 9A.04 of the SISR.
25 See regulation 9A.05 of the SISR.

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(i) any competency standards[26] ASIC determines;

(ii) any standards issued by the AUASB (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 (APESB) and set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (Code of Ethics); as prescribed by the regulations.[27]

24. 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. For example, members of CPA Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and Institute of Public Accountants (IPA) are required to comply with competency requirements[28] 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 are to 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.

25. 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,[29] 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;[30]

(b) report in writing to 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, within 28 days, to the ATO[31] using the approved form auditor/actuary contravention report (ACR) and instructions (ACR instructions),[32] 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

[26] See ASIC Class Order CO 12/1687 *Competency Standards for approved SMSF auditors.*
[27] See regulation 9A.06 of the SISR.
[28] 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.
[29] See section 35C of the SISA.
[30] See regulation 8.03 of the SISR.
[31] While the SISA (sections 129 and 130) requires reporting as soon as practicable after forming the opinion, it is the ATO's practice to require lodgement within 28 days of signing the auditor's report.
[32] *Auditor/actuary contravention report instructions* (NAT 11299) and ACR (NAT 11239), see: www.ato.gov.au/ Superfunds

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

26. 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).

27. 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 ATO approved form auditor's report based on the compliance engagement, conducted "in accordance with applicable Standards on Assurance Engagements".

In addition, the ATO 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.[33]

Conduct the Financial Audit and Compliance Engagement in Accordance with ASQM1

28. ASQC 1 *Quality Management 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

29. 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

33 ASIC class order CO 12/1687.

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(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 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 fund trustee of the existing terms of the audit engagement. The auditor obtains the trustee's acknowledgement that their responsibilities under the 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. This includes determining whether the financial reporting framework to be applied in the preparation of the financial report is appropriate.

(d) ASA 220 *Quality Management for an Audit of Financial Statements* requires the engagement partner to determine given the nature and circumstances of the audit engagement:

(i) responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members,

(ii) an understanding of the relevant ethical requirements, including those related to independence, that are applicable.

(iii) that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate.

(iv) that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate.

(v) any changes that may arise during the engagement, that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm in a timely manner.

(vi) take responsibility for the direction and supervision of the members of the engagement team and the review of their work.

(vii) prior to dating the auditor's report, determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, they shall determine that their involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate.

(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;

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(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.

For example, rental income received from a non-arm's length arrangement is tested and the auditor's conclusions are recorded in the working papers.

Where the auditor's conclusions rely on their professional judgement, the working papers should provide appropriate documentation as to the methodology and/or reasoning that led to the conclusion; and

The use of a 'completion memorandum' is useful as a summary of the conduct of the audit and how the opinion was formed.

(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

Audit file retention is not mandated however, paragraph 69 of ASQM 1 requires the audit firm to establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation. The SISA requirement is to retain financial reports for a period of 5 years.

(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.[34]

(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[35]

ASA 250 is particularly relevant due to the requirement for a SMSF to have an annual Compliance Audit. Where non-compliance of SISA or SISR is identified, the auditor is required to assess the impact, if any, on the financial report.

Most breaches of tax law result in additional tax applied at the member level individually rather than at a fund level and often do not have a material impact on the financial statements. In the case of material excess contributions, the auditor may modify their opinion on the financial statements if it is likely the excess contribution will be required to be withdrawn from the fund in future years and the result will be significant to the fund's financial report.

[34] Due to the few persons generally 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.

[35] The ATO has published a Checklist for SMSF Auditors which is designed to assist SMSF Auditors to understand what the ATO ordinarily considers sufficient and appropriate audit documentation for an SMSF.

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Compliance breaches identified as a result of the audit are reported to the ATO for regulatory action. If, in the opinion of the auditor, the breach could result in the material misstatement of the financial report (in future years), they should consider modifying their opinion on the audit of the financial statements – Part A qualification.

This is in addition to any modification of opinion in respect of the Compliance Audit – Part B qualification.

An example of a compliance breach that may cause the material misstatement of the SMSF's financial statements is where there is a breach of the *in-house asset rules (IHA)*. A review of the rectification plan to determine the impact, if any, on the financial report will be required for the auditor to determine whether they modify their opinion.

An example of where there could be material misstatement of the financial statements without breaching any legal requirements is when the fund incurs *non-arm's length income or expenses (NALI/NALE).* The tax calculation, and therefore the closing member balances, could be materially misstated if NALI/NALE is not reported. In this instance, the auditor may consider modifying their opinion on the financial statement audit.

(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 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. The auditor may also consider issuing a management letter or some form of audit completion document to the Trustee. The management letter can also be used to tell the trustees about any section 129 SISA contraventions identified during the audit that did not meet the reporting criteria for the lodgement of an auditor/actuary contravention report.

The auditor's engagement is with the SMSF trustee and as such the auditor communicates directly with the SMSF trustee rather than indirectly such as via the referring accountant.

The auditor has a direct responsibility to the trustee and should not seek to rely on the representations of other parties.[36]

(i) ASA 265 *Communicating 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. Regardless of whether or not the auditor has relied on internal controls, 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.

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36 *Cam & Bear Pty Ltd v McGoldrick [2018] NSWCA 110 and Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502.

(k) ASA 315 *Identifying and Assessing the Risks of Material Misstatement* requires the auditor to obtain an understanding of 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 SMSF and relevant to the audit and, if so, the auditor is required to obtain a sufficient understanding of the SMSF 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.

Part A of Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides guidance to a "user auditor" on the application of ASA 402 in respect of investment management services. Investment Management Services may include WRAP platforms (IDPS), custodial asset management, management accounts (SMA, IMA).

GS 007 provides guidance for the preparation, and use as audit evidence, of two types of Control Reports – Type 1 and Type 2 - stating a Type 1 Report can be used in applying ASA 315 to the audit planning and, a Type 2 Controls Report can be used by the auditor in applying ASA 330.

A Type 2 Control Report, containing an unmodified opinion, ordinarily provides the user auditor with sufficient appropriate audit evidence as to the reliability of controls over the investment management services provided by the service organisation to the user entity and accordingly may enable the user auditor to reduce the extent of substantive testing that might otherwise have been necessary with respect to the balances or transactions subject to those services. A Type 2 Control Report does not however eliminate the need for substantive procedures altogether, as ASA 330 requires the auditor, irrespective of the assessed risk of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance and disclosure.

ASAE 3402 *Assurance Report on Controls as a Service Organisation* is the standard applied by the service organisation auditor that produces a Controls Report that can be used as appropriate evidence under ASA 402. The standard provides for the issuance of either Type 1 or Type 2 reports. Only Type 2 reports provide reasonable assurance that the control objectives within the organisation were achieved through the reporting period.

Data feeds may be used by investment management providers, as well as by other entities such as financial institutions and share registries, for the transfer of

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information required for the preparation of a SMSF's financial report. Typically this results in the source documentation being retained by the service organisation and therefore, additional audit consideration regarding the planning, testing and forming of an opinion is required.

In using a Type 2 service auditor's report issued in accordance with ASAE 3402 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.

(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 which includes the documentation of their testing and how the results may impact the audit opinion.

(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 that they are 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 considered 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, by determining whether the prior period closing balances have been correctly brought forward and that appropriate accounting policies are applied consistently.

(t) ASA 520 *Analytical Procedures* In addition to requirements relating to substantive analytical procedures, the standards require 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 SMSF.

(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 and Related Disclosures* requires the auditor to obtain sufficient appropriate audit evidence that accounting estimates, including fair

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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 a SMSF. The requirements and guidance in ASA 540 are particularly relevant to the audit of trustees' valuations, which are common in SMSFs. Regulation 8.02B of the SISR requires SMSF assets to be valued at market value.

(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[37] 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 that they have selected as appropriate for the SMSF, that 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 opinion in an auditor's written report.

From 1 July 2021, if a SMSF's establishment trust deed or, and an existing trust deed is amended, and includes the requirement to prepare financial statements in accordance with the Australian Accounting Standards, the trustee must consider whether they are required to prepare the financial report under the general purpose reporting framework.[38]

(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 of matter paragraph or other matter paragraph are to be shown in the auditor's report.

37 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*.

38 AASB 2020-2 *Removal of Special Purpose Financial Statements for certain For-Profit Private Sector Entities* March 2020.

(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 requirements of the auditor's report on special purpose financial reports, which for SMSFs is reflected in the ATO approved form auditor's report issued by the ATO.[39] Auditor's reports for SMSFs include an Emphasis of Matter paragraph drawing attention to the note in the financial report which describes the basis of accounting.

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

30. ASAE 3100 *Compliance Engagements*, 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[40] 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; and
- 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.

31. Since ASAE 3100 is read in conjunction with ASAE 3000, where specific application and other explanatory guidance is contained in ASAE 3000 and only referenced in ASAE 3100,

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[39] 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.*

[40] 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).

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.

32. ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, 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. Refer further to paragraph 143-150.

Preliminary Engagement Activities

33. 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 steps are outlined below.

Acceptance and Continuance Procedures

34. 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.

35. 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 seeks permission from the trustees[41] to communicate with the previous auditor.

36. GS 011 *Third Party Access to Audit Working Papers* provides Example Letter E as a template for auditors to request the working papers of a predecessor auditor. There is however, no legislative requirement for successor auditors to provide access to their working papers. Working papers remain the property of the auditor that compiles them and GS 009 only provides guidance in the case of voluntary co-operation between the predecessor auditor and the current auditor.

37. Where an auditor is unable to obtain sufficient appropriate audit evidence of the fund's opening balances, they may need to limit the scope of the audit and consider varying their opinion on the financial statements – Part A qualification.

[41] See GS 011 *Third Party Access to Audit Working Papers*, paragraph 14.

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Ethical Requirements

38. In accordance with ASA 102, ASA 200 and ASAE 3000, the auditor is required to comply with relevant ethical requirements relating to audit engagements. For the purposes of GS 009 this means the Code of Ethics.[42] 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[43] for auditors undertaking the audit of a SMSF.

39. 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.

40. 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 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 and coaching and mentoring by more experienced staff. Under the SISA[44] the auditor is required to comply with competency standards set out by ASIC.[45] 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.

41. 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, Determinations and Interpretative Decisions, is necessary for the auditor to meet this requirement.

Independence

42. 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[46] and

[42] 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 CA ANZ and is applicable to their members. Members of the Association of Taxation and Management Accountants (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.

[43] See regulation 9A.06 of the SISR.

[44] See subsection 128Q of the SISA.

[45] See ASIC Class Order CO 12/1687.

[46] See subsection 128F (d) of the SISA.

Draft

the SISR[47] require the auditor to comply with the auditor independence requirements prescribed by the Code of Ethics.[48]

43. 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.

44. 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.

45. 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.

46. 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, if the auditor, member of the audit team or their immediate family member is a trustee or member of the SMSF. 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 financial report, 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, this could occur 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.

    - 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

[47] See regulation 9A.06 of the SISR.
[48] In addition, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide* Fifth Edition, 2020.

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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 pressure 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. This might occur for example, if 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.

47. 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.

48. 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; or
- Recommendations on independence from relevant regulators.

49. Safeguards within the SMSF may be limited, as many SMSFs are small entities with limited scope for segregation of duties. Hence reliance on internal safeguards may not be possible and the auditor may rely 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.

50. 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.

51. If the firm's staff 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.

52. 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, 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:

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- Making arrangements that accounting services are not performed by a member of the audit team;
- Minimising internal pressures 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; or
- Disclosing to the trustees the firm's involvement in both engagements.

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

54. 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;
- Minimising internal pressures by ensuring clear guidelines protect the auditor from undue influence by others in the firm; or
- 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.

55. Where the audit firm or an individual partner is unduly reliant on the audit fees from a particular 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.[49] These policies may include contracting of suitably qualified external persons or other firms[50] to review files prepared by the audit firm to confirm appropriate audit opinions are being issued and are supported by sufficient appropriate audit evidence that is appropriately documented.

56. Reciprocal auditing arrangements are potentially a significant threat to independence. Where two auditors conduct the audit of each other's SMSF, there are no safeguards to prevent the threat to independence. A significant threat to independence can also arise where two professional accountants who are also SMSF auditors, prepare the accounts for a number of SMSFs and enter into an arrangement to audit each other SMSFs. To reduce this threat

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[49] See ASQM , paragraph 41A(e).
[50] See ASQM 2 *Engagements Subject to an Engagement Quality (EQ) Review*.

safeguards could include ending the reciprocal arrangement or spreading these referrals to a number of different SMSF auditors.

57. 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; or
- Removal from the SMSF audit team any personnel with a close relationship with the trustees of the SMSF, including relatives of the trustees; or
- Ceasing a reciprocal auditing arrangement whereby two auditors had an (exclusive) arrangement to audit each other's SMSFs; or
- Where you are restricted to completing the accounting work in-house and the SMSF audit function is outsourced, ensuring regular rotation of the auditor appointment. For example, having a panel of suitable SMSF auditors that have fixed term engagements for specific SMSFs and then are rotated for a fixed term, may provide a safeguard to independence.

58. 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.

59. Appendix 5 of this Guidance Statement provides a number of practical examples of SMSF scenarios and the threats to independence posed by those situations, as well as some appropriate safeguards which may address those threats.

Professional Judgement and Scepticism

60. 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

61. 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;

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- Considering whether members of the engagement team have complied with relevant ethical requirements;
- Forming a conclusion on compliance with relevant independence requirements;
- 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 that is appropriately documented;
- 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; or
- Monitoring quality adequately against firm and professional standards, including the Auditing Standards and ASAEs.

Agree the Terms of Engagement

62. 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.

63. 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.[51] 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.

64. 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;

[51] Requirement under regulation 8.02A of the SISR for appointments after 1 July 2013.

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    - 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.
- Sets out the reporting requirements of the auditor, including those imposed by sections 129 and 130 of the SISA; and
- 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.

65. 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; or
- 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.

66. An example engagement letter is attached as Appendix 1 of this Guidance Statement.

Planning

67. 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; and
- Planning the nature, timing and extent of direction and supervision of engagement team members and review of their work.

68. 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.

69. Adequate planning:

- Ensures appropriate attention to important areas of the audit engagement;
- 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; and

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- Assists, where applicable, in the coordination of work performed by other auditors, actuaries and experts.

70. 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 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; and
- The auditor's previous experience, if any, with the SMSF.

71. An annual 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

72. 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.

73. The complexity of the audit strategy will vary with the size, nature and complexity of the SMSF.[52] 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.

74. 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.

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

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

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

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

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

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

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

76. The covenants in subsection 52B(2) 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 3 Self-Managed Superannuation Fund Governing Rules Preliminary Understanding Checklist.

77. 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

78. The audit plan documents the detailed implementation of the overall audit strategy. 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.

79. 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 are documented accordingly.

80. Often, the audit plan for a SMSF takes the form of a template which can be used to assist in maintaining quality control for the engagement as required by ASA 220. Standardised 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.

81. The audit plan encompasses financial audit procedures, such as the illustrative financial audit procedures listed in Appendix 4 of this Guidance Statement, as well as compliance procedures.[53]

Risk Assessment Procedures

82. 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.

83. Under ASA 315, the auditor is required to examine the internal controls of the SMSF. 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.

[53] 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 SMSF audit tool (eSAT), for use in conducting the compliance engagement.

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Given the nature of a SMSF, it is possible that there may be limited reliable internal controls on which the auditor may rely. Even if the auditor considers that a fully substantive audit approach is appropriate, the auditor is still expected, under ASA 230, to document their consideration of the internal control environment.

84. Under ASA 250, the auditor is required to consider whether the SMSF has breached the SISA or SISR previously and whether there are 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.

85. SMSFs are often small entities, with a close and related membership where all trustees or directors of the corporate trustee may be equally responsible for managing the fund and making decisions. There may be little or no opportunity for implementing segregation of duties 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 the level of substantive testing. As a result, the auditor would design and perform further audit procedures which are entirely substantive procedures. If the administration of the SMSF is outsourced, the auditor evaluates the controls prevailing at the administrator.

Use of Technology

86. Initial risk assessment and audit planning includes determining the method of data collection used by the party preparing the financial report for the SMSF. It is more common to see the use of technology for data management and transfer and this can influence the risk assessment undertaken by the SMSF auditor.

87. Traditionally, the primary source document for SMSF account preparation was the bank statement and individual transactions were manually loaded into accounting software (including excel) for the report preparation. Inherent risks in this approach included the risk of compromised bank statements and therefore the auditor would normally obtain direct confirmation from the bank in the audit planning phase. Today it is more common for cash transaction data to be sourced via data feeds which is the transmission of information between the financial institution directly into the software of the report preparer. Data feeds are also being used to obtain information from share brokers, WRAP accounts, and term deposit providers.

88. Where the data feeds are utilised via a "direct-connect" process – end to end encrypted link over a point to point connection – the ability to intercept or manipulate the data is removed as the information comes directly from a financial institution into the software of the party preparing the annual compliance report. If an ASAE 3402 Type 2 report has been obtained, this process of data transfer does not represent any additional risks to the SMSF audit process. It however does not change the need for the audit planning to encompass an assessment of the inherent risks associated with the transactional data being held by a service organisation provider such as an IDPS operator.

89. Where data feeds are prepared via an aggregator - "scrapped data feeds" - there is no guarantee of data integrity. Under this process, the original data is sent via an email and, even if encrypted, there is the potential for transcription errors. There is also no guarantee of the integrity of the email or that it has not been intercepted. Errors encountered during the "scrapping" process require manual intervention to correct and therefore reduces the integrity of the final data.

90. Additional testing may be required for the audit of a SMSF that utilises this data transfer process for the preparation of the annual compliance report and is normally undertaken in the audit planning phase.

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91. Extra consideration may be necessary where the party preparing the financial report utilises manual file imports from financial institutions and the integrity of the information cannot be relied on.

Materiality

92. ASA 320 requires the auditor to consider performance materiality[54] 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.

93. The auditor's preliminary assessment of materiality is based on qualitative and quantitative factors. Similarly, 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).

94. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within both Part A (paragraphs 174 to 177) and Part B (paragraphs 324 to 325) respectively of this Guidance Statement.

Audit Evidence

95. 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.

96. ASA 500 and ASAE 3100 require the auditor in the conduct of the financial audit and compliance engagement to obtain sufficient appropriate audit evidence with 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 degree of difficulty or expense involved is not in itself a valid basis for omitting an evidence gathering procedure for which there is no alternative. The auditor uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, in supporting the audit opinion.

97. 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 may include:

- Financial reports of investment entities such as closely held unlisted trusts or private companies;

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[54] 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. Performance materiality may also refer to the amount or amounts set by the auditor for particular classes of transactions, account balances or disclosures.

- Limited recourse borrowing arrangement substantiation – loan contract, holding trust deed, extracts of bank statement showing transactions related to the arrangement (e.g. payment of the initial deposit and subsequent loan repayments);
- Where real property is held by the SMSF, a copy of the title conveyance documentation on purchase by the SMSF - which can also be used to identify related party transactions and, whether the transaction was conducted on commercial terms, for subsequent audits, evidence showing the property is held by the fund and is unencumbered. Documentation to evidence the asset is recorded at market value; a copy of the lease agreement, and, in the case of residential property, evidence the tenant is not a 'related party'; substantiation of the expenses related to the holding of the property by the SMSF; sufficient evidence of the rental receipts, which could include a summary produced by a managing real estate agent that can be mapped back to the cash transactions in the fund bank statements; and general adherence to the terms of the lease agreement;
- Copies of advice received by the trustee where it is relevant to the SMSF's financial position;
- Asset substantiation which may include, holding statements, certificate of title, bank statements, Annual Tax Statement issued by a WRAP provider;
- Income and expense substantiation including the sampling methodology used (if not a 100% sample size);
- Bank statements – opening and closing statements as well as any other statements to evidence transactions that are unusual due to size, and/or their nature, include the purchase or sale of assets, the receipt or payment of material transactions, or other transactions that may not have been substantiated elsewhere;
- Trustee minutes and/or resolutions, the trustee representation letter, the fund's Investment Strategy and any other relevant correspondence;

98. 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. Audit evidence may be held in paper and electronic form and must be able to be provided efficiently and comprehensively to provide the details of the conduct of the audit and how the auditor formed their opinion. Audit evidence is generally more reliable when:

    - Obtained from an independent source;
    - Obtained directly by the auditor;
    - In documentary form;
    - It comprises original documents; or
    - Received directly by the auditor, rather than passed through other parties, especially considering the limited segregation of duties and internal controls that is often found in a SMSF.

99. 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.

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100. Obtaining a *Bank Confirmation* is an effective method to obtain assurance about the existence, title and value of the cash holdings, as well as to determine whether the SMSF cash assets are subject to any form of lien or encumbrance. GS 016 *Bank Confirmation Requests* provides guidance to auditors on the enquiry and confirmation methods for obtaining audit evidence regarding bank accounts and transactions.

101. A bank confirmation certificate will not however provide sufficient appropriate audit evidence of the transactions that occurred during the income year under audit. The audit file should also contain a copy of the bank reconciliation, the analytical review of the cash balances along with evidence of the various transaction testing undertaken.

102. As an alternate method of obtaining independent information regarding the cash transactions, the auditor may request the SMSF Trustee to request the financial institution to provide copies of the bank statements at the same time as they are issued to the trustee. This can be done through the SMSF's internet banking whereby the auditor has a personalised log-in that allows access to the SMSF bank accounts only.

103. If the SMSF only obtains paper statements, the Trustee may request the bank to issue duplicates to the auditor however, this may create a records management issue over time.

Data-feeds and audit evidence

104. The use of data feeds for information transfer presents additional audit considerations regarding the appropriateness of the audit evidence used as the basis for the auditor's opinion.

105. "Direct-connect" transmission – end to end encrypted link over a point to point connection – is the most secure data feed process as the ability to intercept or manipulate the data is removed. There is however some likelihood that the auditor may encounter processing errors. It is important therefore that the auditor understand the control environment that is supporting the data feed process. The auditor would normally request a "Type 2" Audit Report to provide evidence of the effectiveness of the control environment to prevent material misstatement of the financial report. If no report exists, the auditor may need to consider additional testing to determine the reliability of the information provided. Where data feeds are prepared via an aggregator - "scrapped data feeds" - there is no guarantee of data integrity.. The auditor considers conducting their own testing of the information collected via this form of data feed to ensure that sufficient appropriate audit evidence is included in the audit file.

Consideration may be necessary where the party preparing the financial report utilises manual file imports from financial institutions and the integrity of the information cannot be relied on by the auditor.

106. 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 82 to 86 above.

107. 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; or
- Analytical review.

108. ASA 530 *Audit Sampling* 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 ordinarily relies 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 audit procedures do not provide sufficient appropriate audit evidence.

Inspection of Records or Documents

109. 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.

110. 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 is 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

111. 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

112. 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

113. 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.

114. 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.

115. 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

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controls, therefore the auditor performs further audit procedures to obtain sufficient appropriate audit evidence.

116. The auditor obtains written representations from the trustees 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.[55]

Confirmation

117. 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 bank account and investment account balances and their components.[56]

Recalculation

118. Recalculation consists of checking the mathematical accuracy of documents, records or account balances. Recalculation may be performed electronically, for example through the use of data analytics 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.

Re-performance

119. Re-performance is the auditor's independent execution of procedures and controls that were originally performed as part of the SMSF's operations, for example re-performing the calculation of market movement for a range of listed securities. Re-performance may be conducted either manually or through the use of data analytics.

Analytical Procedures

120. Under ASA 520, the auditor is required to apply analytical procedures as risk assessment procedures in understanding the SMSF and its environment and in the overall review at the end of the audit.

121. Analytical 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.

122. Ordinarily, an auditor considers 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

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

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55 See ASA 580 for further requirements and explanatory guidance on written representations.
56 See ASA 505 for further requirements and explanatory guidance on confirmations.

(a) a basis for the auditor's report; and

(b) evidence that the audit was performed in accordance with Auditing Standards, ASAEs and applicable legal and regulatory requirements.

124. 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 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.

125. 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 ASAEs and applicable legal and regulatory requirements;

(b) the results of the audit procedures and the audit evidence obtained; and

(c) significant matters arising during the audit and the conclusions reached thereon.

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

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

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

Nature of Documentation

127. 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 are not considered to be appropriate audit evidence.

128. Oral explanations 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

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conducted under the Corporations Act 2001, the retention period for audit working papers is generally accepted to be at least seven years[57] after the date the audit report is signed.

129. 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.

130. 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.

131. 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

132. 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[58] 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.

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

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

134. 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

135. 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. The *Trustee Representation Letter* is ordinarily obtained as primary audit evidence prior to the audit report being issued. Appendix 2 provides an example *Trustee Representation Letter*.

136. In instances where the auditor's contact with the trustees is limited, and may only be at the conclusion of the engagement, in the interests of having a more efficient audit approach the

[57] See section 307B of the *Corporations Act 2001*.
[58] See ASIC Class Order 12/1687, paragraph 48.

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auditor may consider obtaining certain confirmations from the trustees at the planning stage of the engagement, for example, eligibility of trustees, safe-guarding of assets and fraud.

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

- Acknowledge responsibility for the selection of the applicable financial reporting framework and 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; and
- Believe the effect of uncorrected misstatements aggregated by the auditor is immaterial, both individually and in aggregate, to the financial report.

138. 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; and
- Have conducted the affairs of the SMSF in compliance with the SISA, SISR and other relevant legislation throughout the period.

139. 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.

140. 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.

141. 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

142. SMSFs may use service organisations to provide 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;
- Investment administration, including fund accounting and/or fund administration;
- Registry; and
- Valuation services.

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These investment management services may take various forms including WRAP[59] 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*.

143. The use of a service organisation may provide the opportunity to reduce substantive testing for balances and transactions maintained by the service organisation. ASA 402 provides some relief stating that in the absence of obtaining a direct understanding of the internal control environment of a service entity, the auditor should obtain a 'Type 1' or 'Type 2' Audit Report. ASAE 3402 provides detailed requirements and guidance on the preparation of these audit reports.

Type 1 or Type 2 report

144. A Type 1 Report provides an opinion of effectiveness of the service organisation's internal control environment as described by the service entity's management and cannot be relied on to reduce the level of substantive audit testing conducted by the SMSF auditor. The value of a Type 1 report is limited to planning the audit, assessing the risk of material misstatement, and designing further audit procedures.

145. A Type 2 Report includes the service auditor's opinion on the management's description of the control environment after tests of the controls are undertaken and, therefore, may be able to be used to reduce the level of substantive testing undertaken by the SMSF auditor.

146. The extent of the reliance able to be placed on a service auditor's report provided in conjunction with a service entity's Annual Investor Statement (Tax Report) is determined after a review of the assertions made relevant to information contained in the report. For example, does the audit report limit the scope of the service auditor. Some reports only cover existence rights and obligations, which would require the fund auditor to test for valuation. In these instances, the auditor may partially rely on the service auditor's report and would consider conducting testing to obtain assurance on the valuations contained in the Tax Report. Where the fund uses a custodian but the custodian does not engage an independent auditor to issue a ASAE 3402 report on the investments, the fund auditor may not limit the scope of their audit. Additional procedures may be required for investment, income, expenses and tax information included in the custodian's report.

147. A Type 2 Report can be relied on to the extent the SMSF auditor can map the tests of controls against the assertions in the service provider's audit report. SMSF auditors ensure that any report issued is in compliance with ASAE 3402 requirements otherwise further procedures and evidence may be required. Greater consideration may be necessary if the service provider operates overseas.

148. 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.

149. 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.

[59] 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.

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150. Operators of IDPSs[60] and IDPS-like services are required by CO 13/762[61] or CO 13/763[62] 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 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.

151. ASIC's Regulatory Guide RG 148 *Platforms that are managed investment schemes and nominee and custody services* details the requirements of CO 13/762 and CO 13/763:

(a) RG 148 stipulates the requirement for IDPS operators to maintain, document and comply with adequate internal control procedures to ensure compliance with financial services laws and to have the procedures audited annually by a registered company auditor.

(b) RG 148.126 to 148.133 details the requirement to provide an annual investor statement and audit report within 3 months of the end of the financial year. The audit report must set out whether the auditor has reason to believe that the investment statements have been given without material misstatement and their opinion on whether the annual investor's statements have been properly reconciled.

Assets held under custody are held as a single holding in the name of the Custodian. Individual investors hold a specified number of units which determine the value of the individual holding. An annual independent audit of the IDPS is required to provide assurance on the reconciliation of the attribution to individual investors. The planning of a SMSF audit considers the independent audit of the Custodian as, reports provided under these class orders may provide sufficient appropriate audit evidence for a user auditor.

Using the Work of a Service Auditor

152. 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.

153. 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.

[60] "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.[61] See ASIC Class Order 13/762 *Investor Directed Portfolio-like Services provided through a registered managed investment Scheme.*

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

[62] See ASIC Class Order 13/763 *Investor Directed Portfolio Services*.[63] See Section 295-390 of the ITAA 1997.

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154. With respect to the appropriateness of the service auditor's work, the auditor considers whether:

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

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

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

155. In general, it is likely to be cost prohibitive for a SMSF auditor to obtain direct assurance of an IDPS control environment and therefore reliance on the CO 13/763 Audit Report and applying professional judgment, to determine an appropriate risk rating for the SMSF audit. The risk rating for the audit determines the level of testing required for individual financial statement entries such as; contributions, payments to members, investment purchases and sales as well as the size of the sample for testing asset valuation, particularly the larger positions reported on the Investor Annual Report.

156. Where the SMSF auditor is unable to obtain sufficient appropriate audit evidence as all records are held at the service organisation, they ordinarily consider whether it appropriate to disclaim an opinion, or even express a qualified opinion if the possible effects are material or pervasive.

Using the Work of an Expert

157. 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 *Evaluating the Appropriateness of a Management's Expert's Work* provides guidance on using the work of a management's expert (an expert engaged by, or on behalf of, the trustees) (GS 005).

158. 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.

Evaluating the Appropriateness of a Management's Expert's Work

159. Actuaries and valuers are experts generally appointed by the trustees (a management's expert) to provide market valuations, 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 GS 005 for guidance on evaluating the appropriateness of management's expert's work as audit evidence.

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160. The trustees are required to obtain annually, an actuarial certificate for funds with members in both pension and accumulation phases, where the assets are un-segregated, covering the proportion of income which is tax exempt.[63] Actuarial certificates will also be required if the fund pays a pension that is not prescribed under the SISR. Actuarial certificates are not required for accumulation funds paying pensions with segregated assets if the assets are segregated for the entire year of income and the SMSF pays either; an allocated, market-linked or, account based pension. A SMSF using the segregated method will need an actuarial certificate to claim ECPI if it paid any other type of pension.

161. Since 1 July 2017, SMSFs that are classified as having *disregarded small fund assets*[64], are required to use the proportionate method for exempt pension income calculation, regardless of if the fund is 100% in the retirement phase.

(a) A SMSF has disregarded small fund assets if at least one fund member has a retirement phase income stream and:

(i) a fund member has a total super balance of at least $1.6m; or

(ii) that member is receiving a retirement phase income stream from any source.

162. A SMSF can have 'disregarded small assets' even if no members have pensions of $1.6m or above in the SMSF. The only condition that must be present in the SMSF is there is at least one member in the retirement phase. The remaining conditions can exist outside of the SMSF.

Under this interpretation, a SMSF that is 100% in pension phase will be required to obtain an Actuarial Certificate[65] that states the ECPI percentage is 100%.

163. Where the auditor relies on an actuarial certificate produced by a management's expert as audit evidence, the requirements of ASA 500 and guidance in GS 005 are relevant 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 actuary's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;

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

164. Actuarial reports are a means of assessing 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.

[63] See Section 295-390 of the ITAA 1997.
[64] Section 295-387 ITAA 1997
[65] The 2020 Federal Budget included a measure that would remove the requirement for a SMSF that is 100% in the retirement phase to obtain an actuarial certificate from 1 July 2020. The announced measure has not be legislated as at the time of writing.

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PART A – FINANCIAL AUDIT

165. 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.

166. 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. ASA 210 *Agreeing the Terms of Audit Engagements* at paragraph 6 details the requirement for the auditor to determine whether the reporting framework is acceptable as well as to obtain trustee acknowledgement of their understanding and responsibility for the financial report in its entirety.

Where a SMSF prepares 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.[66]

Financial Reports

167. An accumulation fund, or defined contribution fund, is a fund which is not a defined benefits fund.[67] 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.

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

(i) a statement of financial position; and

(ii) an operating statement.

169. Funds where the benefits are wholly determined by reference to life assurance policies, prepare significantly different financial reports to other SMSFs. Guidance on these reports is provided in the SISR.[68] This Guidance Statement does not deal with the audit of these funds.

170. Typical account categories in an SMSF's financial report include:

- Assets:
  - Cash and cash equivalents;
  - Investments;
  - Receivables; and
  - Prepayments.
- Liabilities:

[66] If a SMSF is a reporting entity OR the trust deed - establishing the fund, or amended, from 1 July 2020, requires the financial statements to be prepared in accordance with the AAS, the SMSF is required to prepare general purpose financial reports and adhere to the Australian Accounting Standards in the preparation of that report.
[67] Definition from regulation 1.03(1) of the SISR.
[68] See Regulations 8.02 and 8.03 of the SISR.

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    - Tax liabilities (current and deferred);
    - Accounts payable and accruals;
    - Borrowings, including limited recourse borrowing arrangements;
    - Accrued benefits; and
    - Vested benefits (disclosed in the notes to the financial statements).
- Reserves
- Revenue:
    - Investment revenue, including changes in net market values;
    - Proceeds from insurance policies; and
    - Contributions and transfers in.
- Expenses:
    - General administration expenses;
    - Tax expenses; and
    - Benefits paid.

Guidance on auditing each of these balances and transactions is provided in paragraphs 151 to 236, and illustrative financial audit procedures are also provided in Appendix 4 of this Guidance Statement.

Assertions and Audit Evidence

171. In representing that the financial report gives a fair presentation of the SMSF's financial position and performance 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 including related disclosures.

172. 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.

173. Assertions used by the auditor fall into the following categories:

    (a) Assertions about classes of transactions and events reflected in the SMSF's operating statement for the period under audit:

        (i) Occurrence - transactions and events that have been recorded have occurred and pertain to the SMSF;

        (ii) Completeness - 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;

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(iv) Cut-off - transactions and events have been recorded in the correct accounting period; and

(v) Classification - transactions and events have been recorded in the proper accounts.

(b) Assertions about SMSF account balances reflected in the SMSF's statement of financial position at the period end:

(i) Existence - assets, liabilities, and 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 - assets, liabilities and member entitlements that should have been recorded have been recorded; and

(iv) Accuracy, 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 SMSF's 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 - 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; and

(iv) Accuracy, valuation and allocation - financial and other information have been appropriately measured and described.

Materiality

174. 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. In addition to considering qualitative factors, a quantitative materiality level is calculated by applying a percentage, based on the auditor's professional judgement, to the appropriate benchmark or benchmarks, which may include:

- Total gross assets;
- Net assets'
- Total member entitlements;
- Total gross income; and
- Total expenses.

175. 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.

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176. 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; and
- The effect of misstatement on the financial report as a whole.

177. 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

178. 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.

179. 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.

180. Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the relevant ethical requirements which includes client consent. It is common practice for a successor auditor to issue a letter to the predecessor auditor to understand whether there may be threats to compliance with ethical requirements.

181. GS 011 *Third Party Access to Audit Working Papers* provides Example Letter E as a template for auditors to request the working papers of a predecessor auditor. GS 011 provides guidance in the case of voluntary co-operation. There is no legislative requirement for successor auditors to provide access to their working papers. Their working papers remain their property.

182. Ordinarily, some audit evidence for opening balances may be obtained as part of the current period's audit procedures on current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other 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 relating to the opening balances.

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183. 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 do not contain material misstatements, are correctly brought forward and that the accounting policies have been consistently applied in the current period.

184. 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 302 to 306.

Cash and Cash Equivalents

185. 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.

186. The audit assertions for auditing a SMSF's cash and cash equivalents are:

- Existence – obtaining evidence that the cash exists and is correctly classified;
- 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; and
- Valuation and allocation – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.

187. 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 assesses the internal controls surrounding the authorisation of payments and receipts to ascertain whether the cash of the SMSF 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 parties that may have access to a fund's bank accounts.

188. If the banking operations are significant to the audit, the auditor sends bank audit confirmation requests[69] to the SMSF's banks. A bank audit 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.

189. 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.

Investments

190. The investments of a SMSF may include:

[69] For an example of a Bank Audit Confirmation, refer to GS 016.

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- 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, Pooled Superannuation Trusts (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; and
- Collectables and personal use assets[70] such as artwork, antiques, wine and recreational boats.

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

192. 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;
- Completeness – obtaining evidence that investments owned by the SMSF are recorded in the accounts; and
- 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.

193. 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; and
- Investments not beneficially owned by the SMSF.

194. 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.

[70] Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

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Existence and Ownership

195. In auditing the existence of 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

196. The auditor confirms that material investments of the SMSF have been recorded at the correct amounts and in the correct period. The auditor reviews supporting documentation to confirm 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 confirm that material 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

197. 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[71] 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 does not result in misleading information and that the method adopted has been applied consistently.

198. When preparing year end accounts, SMSF assets are required to be valued at market value.[72] Market value is defined in the SISA[73] and the ATO's guidance on the process to establish a market value is contained in its Valuation guidelines for self-managed superannuation funds.

199. 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 trustees' rationale for determining the market value of each asset class.

200. 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 and document whether the basis of establishing market value is reasonable and the valuation is reasonable in light of the SISA, SISR, and ATO guidelines. The working papers normally include the audit evidence for the testing of the fund's investments and record how the auditor reached their conclusions regarding any particular asset.

The auditor assesses the risks of material misstatement of the asset values, designs and performs audit procedures and documents conclusions in response to the assessed risks.

[71] See Regulation 8.02B of the SISR.
[72] See Regulation 8.02B of the SISR.
[73] See Subsection 10(1) of the SISA.

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201. A material misstatement of the SMSF's financial report results in the member's interests being misstated which has implications for the calculation of a number of important thresholds:

(a) the member's total superannuation balance (TSB) which is the key metric for eligibility for a range of superannuation planning opportunities;

(b) the valuation of retirement phase pensions and their recording in the member's Transfer balance account (TBA). Every individual has a personal transfer balance cap (TBC) which limits the amount of capital that can be utilised for retirement phase income streams. The TBA is used to manage the individual's TBC and is measured based on the market value of transactions that occur as debit and credits within the account;

(c) the value of a member's death benefit. Material misstatement in the financial statements of a SMSF when a member dies can lead to a delay in the payment of the proceeds.

202. 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.

203. 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.

204. Investment in unlisted companies or trusts may need some further consideration by the auditor in order to gain assurance the valuation is appropriate. Difficulties may arise when the company or trust report on an 'at cost basis'. Applying professional judgement, the auditor assesses the likelihood of material misstatement of the SMSF accounts if the investment is not subject to a valuation process. Matters to be considered may include the following:

(a) length of time the SMSF has held the investment;

(b) evidence provided at the initial purchase and any subsequent additional investment by the SMSF regarding the valuation methodology;

(c) any third party sales or purchases of the investment during the SMSF's holding period. This will require the SMSF trustee to liaise with the company CEO or the trustee of the trust to obtain supporting evidence of the methodology for striking the sales or purchase price. This request may be refused based on commercial sensitivities.

(d) whether it is reasonable for the SMSF trustee to undertake a valuation of a fund asset. That is, they possess the requisite knowledge or expertise to undertake the valuation or, a low level of complexity is inherent due to the volume of publicly available market information to facilitate an informed valuation.

For example; if a SMSF asset comprises a strata title residential property in a major capital city where reasonable stock turnover occurs, the trustee may be able to use auction and other sales data to determine an appropriate valuation for the fund property. Alternatively, if a property is unusual and not subject to comparable sales, it may be the trustee does not have the competency to undertake the valuation of the asset.

205. Where the SMSF has invested in a related trust or company, a review of the valuation methodology may reveal the instance of non-arm's length income (NALI) which requires a re-assessment of the calculation of the fund's tax position.

206. 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 ACR where there is a contravention or potential contravention of regulation 8.02B of the SISR. The SMSF Annual Return will report the Part A Audit qualification.

207. 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 adequate and current.

208. 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

209. IDPS[74] operators provide investors with an annual tax statement to provide consolidated information about their investment portfolio as well as to assist them with the completion of their tax obligations. The extent to which a SMSF auditor can rely on the third party information is as follows:

(a) Where the Annual Investor Statement is accompanied by an Audit Report issued in accordance with ASAE 3402 and GS 007 ("type 2 report") and the audit report provides audit evidence on the operating effectiveness over controls at the service organisation.

210. ASA 402 deals with the auditor's responsibility to obtain sufficient appropriate audit evidence when the user entity uses a service organisation. The Standard expands on how the auditor applies ASA 315 and 330 in obtaining an understanding of the user entity, including internal controls relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks. A type 2 report may be used as evidence that controls at the service organisation are operating effectively if the results described in the service auditor's report are relevant to assertions that are significant in the SMSF's financial report.

211. The nature of the audit procedures required to obtain sufficient appropriate audit evidence regarding a SMSF's investments which are managed by, or under a custodial arrangement of an IDPS or another service organisation, are a matter for the auditor's professional judgement in accordance with the assessed inherent risks in the fund.

212. Investments held by an IDPS operator under the investor's HIN (holder identification number) rather than under a custodial arrangement, are able to be verified directly by the auditor regardless of the location of the records. If the investor report is a primary document for the preparation of the SMSF's financial statements, the risk assessment by the auditor may depend

74 See paragraph 142 of this Guidance Statement for a description of IDPS reports.

Draft

on whether a type 2 audit report has been provided and what level of assurance has been provided by the service auditor.

213. 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 on procedures on the SMSF's investment activity.

214. For a standalone investment mandate where the IDPS or service organisation maintains the SMSF's accounting records, including source documentation, implements investment decisions based on the mandate and holds the investments on behalf of the SMSF under a custodial arrangement, 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.

215. Audit evidence in these circumstances may include a service auditor's report on the operating effectiveness of the controls at the IDPS or service organisation (a Type 2 Report), analytical testing, substantive testing of balances and transactions held by 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.

216. Testing at the transaction level may include: valuation using independent sources, confirmation of contributions with employers, verification of benefit payments against members' records e.g. personal bank statements, verification of dividend and trust distributions against published information and, by obtaining copies of correspondence including advice provided to the SMSF regarding portfolio positions. The SMSFs asset register can provide another source of information that may increase the auditor's judgement on how much reliance they will place on the Type 2 Report to provide sufficient audit evidence.

217. If the auditor is not relying on the Type 2 Audit Report to limit the level of testing undertaken at a transaction level and 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, the auditor either 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.

218. In the case of a modified audit opinion, the methodology and the details of how the auditor reached their conclusion form a part of the audit working papers.

Receivables and Prepayments

219. Where the SMSF accounts on an accruals basis, receivables may include 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.

220. 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.

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

222. Unpaid present entitlements (UPE) from related trusts risk being caught as a contravention of; the in-house asset rules (IHA) in Part 8; the arm's length rules at s.109 and; the sole purpose

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test (SPT) at s.62 SISA 1993, if not promptly paid. See SMSFR 2009/3 for details of the ATO's view on UPE's between SMSF and related trusts. In reviewing UPE's, the auditor considers whether there is genuine likelihood of the capital being paid within proximity of the declaration of the distribution or whether the fund and trust have entered into a loan agreement (explicit or implicit).

Liabilities

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

- 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; and
- Bank overdrafts, other borrowings and related interest payable.

224. 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 – liabilities of the SMSF have been recorded; and
- Valuation and allocation – liabilities are recorded at appropriate amounts and allocated to the appropriate account.

225. Generally, SMSFs are not permitted to borrow. Permitted exceptions are temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions surcharge,[75] settlement of securities transactions where the borrowing was unforeseen or borrowings under limited recourse borrowing arrangements. Sections 67, 67A and 67B of the SISA detail the additional requirements that are required to be met before the limited recourse borrowing is accepted.

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

- Liability values being understated;
- Liabilities being omitted; and
- Excessive accruals for expenses that will not be paid or which are not legitimate expenses of the SMSF.
- Loan documents in respect of a limited recourse borrowing arrangement (LRBA) do not specify the loan to be limited in recourse.

[75] 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.

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227. 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.

Accrued Benefits

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

229. Accrued benefits of a SMSF may arise from:

- Accumulation entitlements where the member bears the investment risk;
- Pension accounts due to members; and
- Insurance claims paid or payable to the SMSF owing to members.

230. 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 – accrued benefits of each member of the SMSF have been recorded; and
- Valuation and allocation – accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.

231. 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; and
- Member balances not being carried forward correctly from one period to another.

Vested Benefits

232. 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[76] and accessing a TRIS. Usually vested benefits are disclosed in the notes to the financial statements.

233. 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

[76] Preservation age is the age at which super benefits may be able to 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.

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superannuation payments made pursuant to an Award or other employment agreement, amounts rolled over or transferred in as minimum benefits and the earnings thereon. 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.[77]

234. 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 for inclusion in members' accounts. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefits are not being reduced.

Reserves

235. 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. Prior to 1 July 2017, a wide range of reserves were used by some SMSFs as follows:

- Investment smoothing;
- Anti-detriment;
- Insurance; and,
- General

236. Investment smoothing reserves are used to maintain a consistent rate of return for the fund and are widely used by APRA funds however, their use in a SMSF is not likely to be valid given the limited membership size available. SMSFs with historical investment reserves are encouraged to develop a plan to unwind these reserves overtime and audits checks include identifying if the reserve has been added to since 1 July 2017.

237. Prior to 1 July 2019, anti-detriment payment reserves were utilised in order to fund 'tax saving amount(s)' in accordance with s 295-485 ITAA 1997. These reserves were established to pay an additional benefit upon death, equivalent to the tax already paid on contributions, for the member. The reserves were funded from excess investment returns; by a contract for insurance over the life of a fund member; or allocated from miscellaneous reserves. SMSFs were able to pay a tax savings amount to a deceased's member's spouse or child up to 30 June 2019 provided the member died prior to 1 July 2017.

Audit procedures for a SMSF with an anti-detriment reserve may include ensuring the trustee has documented the strategy in respect of the capital and, where the reserve is being unwound, the treatment of allocations from the reserve to member balances.

238. Funding of reserves via the use of a contract for insurance was prohibited from 1 July 2014 however, if the policy was commenced prior to the change, the SMSF can continue to maintain it. Audit procedures may include testing insurance contracts against the requirements of regulation 4.07D SISR 1994.

239. General reserves are created in a SMSF by the death of a defined benefit pensioner as any residual capital remaining from the pension defaults to a reserve as the capital is not a member allocated balance.

240. Contribution reserves are not considered to be a reserve and are referred to as an 'unallocated contribution suspense account. The use of this account allow funds to manage potential excess contributions where a contribution is received in the month of June. Contributions received are required by the SISR to be allocated to members within 28 days of the end of the month in

77 See regulation 5.08 of the SISR.

Draft

which they are received.[78] 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"[79] 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.

The trustee is required to report an unallocated contribution to the ATO via a specified form[80] otherwise, the member will be assessed under the excess contribution rules.

241. The ATO has issued SMSFRB 2018/1 to provide its interpretation of the validity of reserves for SMSFs and its concerns that reserves may be used to circumvent the various caps and limitations that apply to superannuation and income tax from 1 July 2017.

242. Audit considerations for reserves include whether:

- The fund's governing rules permit the maintenance of reserves;
- The fund has a reserve strategy.[81]
- 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. An allocation from a reserve (apart from a pension reserve) is treated as a concessional contribution, unless the allocation is 'fair and reasonable' across the membership and the amount allocated represents less than 5% of the member's balance. Pension reserve transfers are in accordance with the annual Actuarial Certificate.
- Where a SMSF has reserves that were established prior to 1 July 2017 (or 2014 for insurance), the fund is permitted to maintain the reserve however, unexplained increases in the balance of fund reserves and the creation of new reserves are subject to greater scrutiny.

Investment and Other Revenue

243. Revenue of a SMSF, other than contributions, may include:

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

244. The audit assertions for revenue received by a SMSF are:

[78] See Regulation 7.08 of the SISR.
[79] See TD 2013/22 applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.
[80] See ATO NAT 74851 – Request to adjust concessional contributions.
[81] See section 52B(2)(g) of the SISA.

Draft

- Occurrence – revenue received by the SMSF is real and has occurred;
- Completeness – revenue received by the SMSF has been recorded;
- Accuracy – revenue received by the SMSF has been recorded appropriately. Changes in market value are based on appropriate and accurate asset valuations;
- Cut-off – revenue received by the SMSF has been recorded in the correct period; and
- Classification – 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.

245. 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; and
- 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

246. 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:[82]

- 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 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; and

[82] See the Self-Managed Superannuation Fund annual return (NAT 71226).

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- Downsizer contribution.

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 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.

247. 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 – contributions and transfers in from or on behalf of members have been received and recorded;
- Accuracy – contributions and transfers in have been recorded appropriately;
- Cut-off – contributions and transfers in have been recorded in the correct period; and
- Classification – contributions and transfers in have been allocated to the correct member and correctly classified as concessional or non-concessional.

248. 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 and other contributions categories listed in paragraph 216;
- 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 tax components of transfers in;
- Acceptance of contributions in excess of the fund-capped contributions limit;[83]
- Understatement of market values for in-specie contributions to avoid exceeding the contributions caps; and
- Under or overstatement of market values for in-specie contributions either to provide early access to benefits or to disguise loans to members.

249. 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 reviewing member PAYG information analytically.

Expenses

250. The typical expenses of a SMSF may include:

- Administration fees;
- Audit fees;
- Actuarial advice;

[83] Contributions caps are discussed in paragraph 230 of this Guidance Statement.

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- Legal advice;
- Valuation fees;
- Accounting and tax agent fees;
- Superannuation supervisory levy;
- Investment management fees and financial planning advice;
- Bank fees;
- Property expenses;
- Insurance premiums paid; and
- Taxation.

251. The audit assertions with respect to a SMSF's expenses are:

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

252. 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; and
- Incorrect tax treatment of an expense.

253. 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 trustee services to the SMSF, which are prohibited.[84]

Tax Expense

254. 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 assertions 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;

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

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- Completeness – assessable income, including capital gains, received by the SMSF has been declared;
- Accuracy and Valuation– 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;
- Allocation – tax expense is correctly allocated to member's account. Member specific items such as contributions, insurance premiums, exempt pension income are allocated to the member on an after-tax basis. Where a fund has a pooled investment strategy, the allocation to member accounts is generally based on a proportionate method of the total membership. Where a fund has segregated assets, the income, expense and tax allocation is member specific.
- 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; and
- Classification – the tax status of contributions is correctly determined. Timing differences have been correctly identified and accounted for.

255. Income tax is payable on investment earnings (net of expenses) including capital gains, 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.

256. The top marginal tax rate applies to *non-arm's length income and expenses (NALI/NALE)* as well as funds deemed to be non-complying superfunds.

257. 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 the likelihood of payment of the liabilities or recovery of the assets based on the age of the members and the circumstances of the SMSF. SMSFs that adopt a special purpose framework for reporting purposes, many elect not to apply AASB 112.

Ordinary Income

258. 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; and
- Dividend income derived but not yet received.

259. Ordinary income does not include:

- Non-concessional contributions;
- Income not derived;
- Non-reversionary bonuses on life policies; and
- Income from assets used to fund pensions.

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260. 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

261. 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.

262. 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.

263. 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 confirms the contribution is supported by a Capital gains tax election – instructions and form.[85]

264. Some contributions are time limited and audit considerations normally include reviewing the date the contribution was recorded as being received against the specific contribution time limit. For example, concessional contributions must be allocated to a member within 28 days of their receipt. This is particularly important if the fund uses the contribution reserving strategy. The downsizer contribution requires the individual to make the contribution to super within 90 days of the receipt of the settlement funds from the sale of an eligible property.

265. Contributions under the small business 15-year exemption or the retirement exemption are required to be paid into the fund when the individual makes the choice or, when they receive the capital proceeds from the CGT event, if they are under age 55. Individuals over 55 do not have to make the contribution to super in order to qualify for the CGT exemption however, if they do, the contribution must be made the later of the day the tax return is required to be lodged in the year of the CGT event or, 30 days after the capital receipt.

266. If an individual receives a capital gain from a company or trust as a CGT concession stakeholder, the paying entity must make the payment to the individual's superfund within 7-days of the date of the election or, within 7-days of receipt of the capital, if the stakeholder is less than 55 years of age.

Non-arm's Length Income

267. Non-arm's length[86] income (NALI) of a SMSF, which includes private company dividends (unless arm's length), income from non-arm's length transactions and discretionary or hybrid trust distributions, is not taxed concessionally. The auditor checks that any non-arm's length income has been classified correctly. Undetected NALI may result in a material misstatement of the tax expense of the SMSF and the auditor may need to modify their opinion on the financial statements – Part A qualification.

Franked Dividends

268. 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

85 See ATO form NAT 71161.

86 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.

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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 refund.

Capital Gains Tax

269. Growth in the value of most SMSF assets, is subject to Capital Gains Tax (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.

270. Additional testing may be required where the SMSF made a CGT Relief election in the 2017 income year. A list of investments that were subject to CGT deferral should form a part of the audit working papers and the auditor ordinarily tests the correct calculation of the capital gain or loss if any of these deferred CGT assets were sold in the income year under review.

Goods and Service Tax

271. If the SMSF is registered for Goods and Service Tax (GST), generally due to owning business real property, and has taxed supplies (income) and input taxed supplies (expenses) the auditor , where material, reviews the GST calculation and business activity statements (BAS) to ensure that the correct amounts are being disclosed and the SMSF is meeting its 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 accounting fees for the preparation of the tax return or BAS or on audit fees.

Deductions

272. 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.[87] 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 and are not tax deductible.

273. The auditor ordinarily reviews the fund activity to identify whether any non-arm's length expenses (NALE) were incurred during the income year. Non-arm's length expenses are those that are less than the amount that the fund might have been expected to incur if dealing with the other party at arm's length including where services or goods are received for no cost.[88]

274. As an example the auditor may consider any separate services provided by the trustee, in their capacity as trustee, as these are not able to be remunerated and do not fall into the NALE regime. NALE results in the application of NALI rates of tax for the fund. The auditor verifies that expenses are not claimed if they relate to exempt pension income.[89]

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[87] 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, , , and Tax Ruling IT 2672, which discusses the deductibility of amending a deed.

[88] LCR 2019/D3 provides the ATO views on NALI and NALE

[89] 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).

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Actuarial Reports for Un-segregated Assets

275. Where a fund that does not qualify as holding "disregarded small fund assets" and has un-segregated assets (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

276. Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65 years, death, physical or mental incapacity,[90] termination of employment, or reaching preservation age and commencing a transition to retirement[91] income stream[92] (TRIS). In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.[93]

277. SMSFs may pay benefits by way of a lump sum (in cash or in specie[94]), pension or insurance benefit.[95] An accumulation fund may pay the following types of pensions:

(a) account based income streams, including TRISs; and

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

278. The relevant assertions with respect to benefits paid are:

- Occurrence – benefits recorded by the SMSF as paid have been paid;
- Completeness – 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 TRISs only, the payment does not exceed the maximum annual payment amount. The correct amount of Pay-As-You-Go (PAYG) withholding tax, has been withheld, where the benefit is from an untaxed source or the member is under 60 years;
- Cut-off – benefits paid by the SMSF have been recorded in the correct period; and
- Classification – benefits paid by the SMSF have been recorded in the applicable accounts including the applicable member's account.

279. 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 is not entitled, providing early access to benefits.

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[90] This can be permanent or temporary incapacity which stops the member from engaging in gainful employment.
[91] More information about transition to retirement is available on the ATO website www.ato.gov.au (search under transition to retirement).
[92] Other conditions of release include a terminal medical condition, financial hardship and compassionate grounds.
[93] 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 281-283 for further guidance on benefit splitting.
[94] Assuming in-specie payments are permitted by the fund's governing rules.
[95] 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.

- Incorrect calculation of a benefit payment.
- 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 TRIS is exceeded.

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

281. 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 the 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

282. 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;[96]

    (e) Notice by a trustee of information regarding an interest subject to a payment split;[97]

    (f) Payment split notice by a trustee to both member and non-member;[98] and

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

        (i) create a new interest;[99]

        (ii) rollover or transfer benefits;[100]or

        (iii) pay a lump sum where a non-member has met a condition for release.[101]

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[96] See notice under regulation 72 of the *Family Law* (*Superannuation*) *Regulations 2001*.
[97] See notice under regulation 2.36C of the SISR.
[98] See notice under regulation 7A.03 of the SISR.
[99] See notice under regulation 7A.03C or 7A.05 of the SISR.
[100] See notice under regulation 7A.03D or 7A.06 of the SISR.
[101] See notice under regulations 7A.03E or 7A.07 of the SISR.

283. 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 any 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 trustee; or

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

284. Due to the potential complexities and subtleties of the court orders, the possibility that court orders inadvertently conflict with the SISA or SISR exists, 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

285. 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.[102] 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 to the expected date of the auditor's report for the next annual reporting period.

286. 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,[103] the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

287. The auditor is concerned with whether the net assets of the SMSF exceed the vested benefits, which are payable to members irrespective of whether they continue as a member. If there is a deficiency in net assets with respect to vested benefits the SMSF may not be a going concern, 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.[104] 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.[105]

288. 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

[102] ASA 570 provides requirements and guidance to the auditor where going concern issues exist.
[103] Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph 361 of this Guidance Statement.
[104] See regulation 9.38(1) of the SISR.
[105] See regulation 9.35 of the SISR.

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winding-up proceedings have been initiated, as required under the SISR.[106] 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.

289. Having considered the matters described in paragraphs 244 to 247, 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 an emphasis of matter section in the auditor's report regarding a going concern uncertainty, where 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:

(i) 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.

290. Under ASA 570, the auditor communicates to the trustees if a modified opinion is to be issued in relation to 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 314 to 318.

Subsequent Events

291. 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 divorce 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.

292. 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, such as valuation adjustments, to the financial report. Whereas, if an immaterial investment of the SMSF became worthless, this may not warrant any amendment.

[106] See regulation 9.17 of the SISR.

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Winding-Up

293. If the trustees decide to wind up the SMSF, the SMSF still needs to be audited for the relevant financial year.

294. Upon winding-up, an audit is performed with increased focus 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;
- Final income year that the tax and lodgement levy has been paid;
- Cash – to ensure there are no transactions post balance date and that the balance is nil at balance date. This may include accounting for any tax refunds that were due to be paid to the fund; and
- Rollovers – to test whether they were paid to and received by complying superannuation funds.

295. If the fund's bank account remains open with a small balance in order to attend to the final wind-up expenses, such as tax payments and accounting and audit fees, the auditor may consider modifying their opinion. The auditor would undertake a post balance review required to assess whether the bank account has been closed.

Change of Auditor

296. When a SMSFs audit is transferred 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.

Anti-Money Laundering

297. The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) is legislation designed to assist with the identification of, and 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. SMSFs do not provide a designated service and accordingly are not required to report under the AML/CTF Act. 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.

Reporting

298. 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 financial operations of the entity for that year; and

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(b) give the trustees the auditor's report in the approved form,[107] 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.[108]

299. 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 standard requires the auditor to 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.

300. 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.

301. 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

302. Modifications to the auditor's opinion may be either:

(a) a qualified opinion;

(b) an adverse opinion; or

(c) a disclaimer of opinion;

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

Modified opinion

303. ASA 705 requires an auditor to modify their opinion in the audit report when:

(a) based on the audit evidence the financial report is not free from, material misstatement.

(b) the auditor is unable to obtain sufficient appropriate audit evidence to conclude the financial report is free from material misstatement.

An example in the context of a SMSF audit is where the auditor is not able to obtain evidence of the (market) valuation of unlisted investments.

Qualified opinion

304. ASA 705 requires an auditor to qualify their opinion when:

(a) based on sufficient audit evidence, they conclude there are material misstatements in the financial report or;

[107] The ATO approved form auditor's report is available at www.ato.gov.au/superfunds.
[108] See regulation 8.03 of the SISR.

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(b) they are unable to obtain sufficient appropriate evidence to base the opinion but concludes that the possible effects on the financial report of undetected misstatements could be material.

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. 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".[109]

Adverse Opinion

305. ASA 705 requires the auditor to express an adverse opinion when, having obtained sufficient appropriate audit evidence, they conclude that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

The opinion paragraph is headed "Adverse Opinion".

Disclaimer Opinion

306. 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, is unable to express an opinion on the financial report as a whole.

Paragraph 13 of ASA 702 requires an auditor to:

(a) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)

(b) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial report. (Ref. Para. A14).In these circumstances, the opinion paragraph is headed "Disclaimer of Opinion".

Emphasis of Matter

307. 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 form auditor's report[110] includes the required wording.

308. 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

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[109] *Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502 - a NSW Supreme Court appeal - examined a significant loss within a SMSF due to material misstatement of the financial statements and found the fund's auditor was liable for 80% of the loss incurred due to their negligence in not qualifying the audit report.

[110] The ATO approved form auditor's report can be found on the ATO's website: https://www.ato.gov.au/Forms/SMSF-independent-auditor-s-report

(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 an emphasis of matter paragraph does not affect the auditor's opinion, but draws the users' attention to the matter raised.

Other Matter

309. An auditor's report may include another matter paragraph to highlight:

(a) information about the auditor's responsibilities, the audit or the auditor's report;

(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; or

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

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

310. Whenever the auditor expresses a modified opinion, 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.

Auditors to Act Independently

311. SMSF auditors need to demonstrate a degree of professional scepticism, act independently and meet their ethical obligations under the Code of Ethics The auditor undertakes the audit of the SMSF financial statements and compliance engagement in accordance with their engagement letter with the SMSF Trustee, along with the consideration of various legislative requirements as discussed throughout this guidance statement.

Case law indicates SMSF auditors have 'significant ability to detect and prevent loss' and 'to protect the (audit) fund against financial risks'.[111] The Part A financial statement audit is undertaken in order for the auditor to express an opinion on the likelihood of material misstatement in the financial statements and that audit opinion must be made free of any conflicts of interest.

[111] *Ryan Wealth Holdings Pty Ltd v Baumgartner [2018] NSWSC 1502; Cam & Bear Pty Ltd v McGoldrick* [2018] NSWCA 110.

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Communication of Audit Matters

312. 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.

313. 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.

314. 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 audit working papers. Oral communications may need to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.

315. 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.

316. 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 360-367).[112]

PART B – COMPLIANCE ENGAGEMENT

317. 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.

[112] See also *Cam & Bear Pty Ltd v McGoldrick [2018] NSWCA 110 and Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502.

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318. 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.

319. 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.[113]

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

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[114] Part B SISA/SISR	ACR[115] 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 at least 10 years.	S.103	S.103
	Maintains records of changes to trustees	S.104	
	Maintains trustees' declarations about understanding their duties for those who become trustees for the first time after 30 June 2007, kept for as long as relevant or at least for 10 years.	S.104A	S.104A
	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[116]	
	Maintains copies of all member or beneficiary reports for a minimum of 10 years.	S.105[117]	
	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	R.13.18AA
	Restrictions on acquiring or holding "in-house" assets.	Ss.82-85	Ss.82 -.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.	R.4.09A	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	S.67

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114 Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July 2019 (NAT 11466).

115 Auditor-actuary contravention report (ACR) (NAT 11239) available through the ATO's website using eSAT or by ordering a paper form.

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

117 Section 105 of the SISA is a requirement that was included in the ATO 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.

Category	**Specific Criteria**	**Auditor's Report**[114] **Part B SISA/SISR**	**ACR**[115] **SISA/SISR**
	Prohibition on charges over SMSF assets.	R.13.14	R.13.14
	Assets valued at market value	R.8.02B	R.8.02B
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[118]
Other regulatory information	Information regarding the SMSF or trustees which may assist the ATO, including compliance with other relevant SISA sections and SISR regulations.	-	Ss129S and 130A[119]

Materiality

320. 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.

321. In determining whether a contravention identified is material, and therefore whether a modification to the auditor's report is warranted, the auditor considers factors such as:

- The quantum 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; and
- Actual or potential damage to members of a breach of the SISA or SISR occurring.

[118] 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."

[119] 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.

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Establishment and Operation of the SMSF

322. 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 a SMSF;

(b) the trustees are not disqualified persons;

(c) the SMSF's minutes and records are retained for 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.[120]

Definition of SMSF

323. To determine if the SMSF meets the definition of a SMSF,[121] 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 a 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; and
- Obtaining trustee representations.

[120] See subsection 35C(2) of the SISA.

[121] 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.

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Disqualified Persons

324. An individual SMSF trustee is disqualified under the SISA[122] if they are:

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

   (b) the subject of a civil penalty order under SISA;

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

   (d) disqualified by the ATO.

325. A corporate trustee is disqualified if:

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

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

326. Ordinarily, the auditor verifies that the trustees are not disqualified by obtaining trustee representations to that effect. For new engagements, as well as periodically for continuing audits, the auditor seeks independent verification of the trustee status.

327. The ATO publishes a *Disqualified trustee register* that is compiled from the *Government Notices Gazette.* The register is updated quarterly and lists individuals that have been disqualified since 2012.

328. In addition, ASIC provides details of disqualified persons in respect of corporate trustees. Auditors are able to search the 'banned and disqualified register' on the ASIC website for information about individuals who have been disqualified from involvement in the management of a company.

329. 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 againstASFA's National Personal Insolvency Index that lists bankrupts as well as the Bankruptcy Register Search (BRS)or other commercial databases providing record search facilities.

Maintenance and Provision of SMSF Records

330. The auditor obtains representations from the trustees that the minutes and records of meetings have been held for at least 10 years, that accounting records and financial reports have been retained for 5 years, 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 trustees appointed after 30 June 2007, they have signed and retained a "Trustee Declaration" for at least ten years.[123]

331. The SISA requires that the records be kept in the English language or a form that is readily convertible to English[124] 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

[122] See subsection 120(1) of the SISA. Also refer to ATO ID 2011/24 *Waiver of disqualified person status – meaning of* '*serious dishonest conduct'*.
[123] The *Trustee Declaration* is an approved form issued by the ATO (NAT 71089), available from the ATO's website at www.ato.gov.au.
[124] See section 35A of the SISA.

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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.

332. The auditor may request that the trustees provide documents required to conduct the audit. If trustees fail to provide the documents required within the specified time period, this is a compliance breach which, if material, 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

333. 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.[125] The auditor may obtain representations from the trustees that no such arrangement has been entered into.

Investment Strategy

334. The SISR[126] 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 requirement;.
- The ability of the SMSF to discharge its existing and prospective liabilities; and
- Whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

335. 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".

336. 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. Case law provides further authority to the requirement for SMSF auditors to conduct their enquiries independently and to communicate any weaknesses with the trustee directly. [127]

337. 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.

[125] See section 52(2)(e) of the SISA.
[126] See regulation 4.09 of the SISR.
[127] *Ryan Wealth Holdings Pty Ltd v Baumgartner* NSWSC [1502],

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338. 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

339. The SISA[128] 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 allowable purposes ("exclusivity of purpose") and requires a higher standard than maintenance of the SMSF for a dominant or principal purpose. The approved form auditor's report, 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".

340. The trustees of a SMSF are required to maintain the fund 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;
- Employing and using the SMSF's assets; and
- Paying benefits, including those benefits on or after retirement.

341. 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". Case law provides authority to the practical application of section 62 and the ATO has reviewed the Ruling, and issued a decision impact statement as a result to further clarify their position as Regulator.[129]

342. 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. Furthermore, the SISR[130] contains strict regulations in relation to collectables and

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[128] See section 62 of the SISA.
[129] *Aussiegolfa Pty Ltd (trustee) v Federal Commissioner of Taxation* (VID 54 of 2018 VID 83 of 2018).
[130] See regulation 13.18AA of the SISR.

personal use assets. In-house assets are discussed further in paragraphs 300 to 302, while collectables and personal use assets are discussed further in paragraphs 296 to 299.

343. 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 trustee;.
- Has been provided at a cost or financial detriment to the SMSF; and
- 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).

344. 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;.
- The trustees comply with the covenants in section 52B of the SISA; and
- The benefit relates to activities which are part of a properly considered and formulated investment strategy.

345. 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;.[131]
- Loans or financial assistance to members or relatives;[132]
- Acquisitions from related parties;[133]
- Charges over assets;[134]
- Assignment of, or charges over, member's benefits;.[135]
- SMSF assets not held separately from the members' personal assets;[136]
- Acquisition of "in-house" assets in excess of 5% of the total market value of the SMSF assets;[137]and
- Collectables and personal use assets.[138]

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

[131] See section 109 of the SISA.
[132] See section 65 of the SISA.
[133] See section 66 of the SISA.
[134] See regulation 13.14 of the SISR.
[135] See regulations 13.12 and 13.13 of the SISR.
[136] See section 52B(2)(d) of the SISA and regulation 4.09A of the SISR.
[137] See part 8 of the SISA.
[138] See regulation 13.18AA of the SISR.

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Running a Business

346. 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 members' benefits.[139] 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.

347. If a trustee is also an employee of the business, payment of salary or wages to the trustee 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.

348. 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

349. 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 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.[140] 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

350. 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.

Collectables and personal use assets

351. 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 or their related parties. Collectables or personal use assets[141]that are acquired by the fund on or after 1 July 2011 are subject to restrictions[142] contained in the regulation 13.18AA of the SISR including that:

[139] 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.
[140] See paragraph 347.
[141] Collectables and personal use asset list contained in Regulation 13.18AA(1) of the SISR.
[142] Restrictions were subject to transitional arrangements. Collectables and personal use assets held by funds prior to 30 June 2011 were not subject to restrictions until 1 July 2016, at which time, trustees were required to comply with all restrictions. This transitional period provided SMSF trustees with existing investments in collectables and personal use assets time to comply with the rules.

- They must not be leased to any related party[143] of the fund;
- They must not be stored or displayed in the private residence of any related party of the fund;
- They 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 at least 10 years;
- They must be insured in the name of the fund within seven days of acquisition; and
- Transfers of ownership to related parties must be done at market value[144] determined by a qualified independent valuer.[145]
- The auditor obtains sufficient appropriate audit evidence that trustees have complied with the restrictions on collectable and personal use assets of the fund.

352. 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.[146] 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.

353. Investments in holiday houses or apartments need to be reviewed to ascertain if there has been 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 has been breached and may also render the investment an "in-house" asset,[147] 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.[148]

354. 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"

355. An "in-house" asset of a SMSF is an asset that is a loan to a 'related party' (defined term), 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.[149] A related trust is a trust that a member or employer-sponsor controls.[150] There are a number of exceptions to the definition of in-house assets and transitional provisions included in Part 8 of the SISA.[151] The auditor needs to be familiar with these exceptions when considering in-house asset requirements.

356. 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[152] and at year end.[153] Also the trustees are prohibited

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143 Related party is defined in Section 10(1) of the SISA.
144 Market value is defined in Section 10(1) of the SISA.
145 See ATO's Valuation guidelines for self-managed superannuation fund (web-based).
146 See regulation 13.18AA(6) of the SISR.
147 See guidance on "in-house" assets is provided in paragraphs 300 to 302 of this Guidance Statement.
148 See regulation 13.18AA(6) of the SISR.
149 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.
150 Defined in subsection 10(1) of the SISA.
151 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 SISA.
152 See section 83 of the SISA.
153 See section 82 of the SISA.

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.

357. 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, or by concealing the related party connection. Such actions are prohibited under the SISA.[154]

358. If the level of IHA exceeds 5%, the trustee is required to develop a written plan to reduce the level below 5% by the end of the following income year. Where a SMSF has IHA that are greater than the 5% limit, the auditor may obtain a copy of the rectification plan and include details of their testing in the audit working papers.

Acquisition of Assets from Related Parties

359. Trustees and investment managers are prohibited, under the SISA,[155] 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% 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 section 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% limit.

360. Business real property[156] is land and buildings used wholly and exclusively for business purposes.[157] It does not extend to:

(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 primary production business.

361. Assets which would ordinarily be defined as in-house assets but which are exempt under the provisions of section 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

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[154] See section 85 of the SISA.
[155] See section 66 of the SISA.
[156] 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.
[157] See SMSFR 2009/1 Business real property for the purposes of the SISA.

widely held unit trust, and non-geared unit trusts which meet the other requirements of the SISR.[158]

362. Ordinarily, the auditor examines the documentation surrounding the purchase of material investments, 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 parties, whether individuals or entities related to the trustees or members.

Arm's Length Investments

363. The SISA[159] 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; and
- Investments which are inconsistent with the investment strategy or entered into without a sound rationale.

364. 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[160] requires that 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

365. The trustees are required[161] 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

[158] See regulation 13.22A - 13.22D of the SISR
[159] See section 109 of the SISA.
[160] See section 109(1)(b) of the SISA.
[161] See subsection 52B(2)(d)of the SISA, and Regulation 4.09A of the SISR.

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clear evidence that those assets are held beneficially on behalf of the SMSF, such as a declaration of trust or an acknowledgement of trust.

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

367. 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

368. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives[162] and the approved form auditor's report states that the auditors 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.[163]

369. 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.

370. 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.

Borrowings

371. SMSFs are not permitted to borrow money,[164] with the exceptions[165] 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 seven 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 complying limited recourse borrowing arrangement.[166]

372. 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.

162 See 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.
163 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.
164 See section 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.
165 See sections 67 and 67(A) of the SISA.
166 See ATO Ruling SMSFR 2012/1 Self-Managed Superannuation Funds: limited recourse borrowing arrangements – application of key concepts (SMSFR 2012/1).

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373. 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.

374. 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.

375. Where the SMSF has derivative instruments – a charge over assets that is required to be given for compliance with listing rules (covered calls), the auditor obtains the derivative risk statement prepared by the trustees and considers whether it complies with regulation 13.15A of the SISR.

376. 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.

377. 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.

378. For limited recourse borrowing arrangements[167] 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[168] in very limited circumstances specified in the law;

(b) superannuation fund trustees cannot borrow to improve an asset[169] (for example, real property);

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[167] See sections 67A and 67B of the SISA.
[168] 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.
[169] Table 1 in ATO ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.

(c) the borrowing is permitted only over a single acquirable 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.[170]

379. 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 limited-recourse agreement as required by the SISA,[171] 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 have 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;
- 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; and
- 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;

170 See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.
171 See subsection 67A(1) of the SISA.

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- the trust asset is a single asset or identical assets that have the same value, e.g. ordinary shares; and
- there is no charge over the asset except per the limited recourse arrangement.[172]

Charges Over Assets

380. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility[173] and, hence, charges and liens over assets are not permitted. Also, charges and liens over any member benefits are prohibited. Additional audit procedures include review of any bank confirmations for charges, 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.

381. 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.

382. 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.

383. Ordinarily, the auditor requests the most recent financial report and tax return along with distribution statements for investments in unit trusts, to identify net asset value, any debts owing by the unit trust and income received and paid by the trust. In certain cases, the unit trust deed may be required to assist the auditor in assessing the investment against SISA investment rules.

Asset Valuation

384. The trustees are required to value fund assets at market value.[174] See paragraphs 163 to 171 for requirements and explanatory guidance on asset valuations.

Benefit Restrictions

385. 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.[175]

172 See ATO SMSFR 2012/1 for further guidance on the requirements for limited recourse borrowing arrangements. Also see ATO ID 2010/162, 2010/184 and 2010/185.
173 See regulation 13.14 of the SISR. Also see ATO IDs 2010/162, 2010/169, 2010/170, 2010/172, 2010/184 , 2010/185, 2014/39 and 2014/40.
174 See regulation 8.02B of the SISR.
175 More information is available on the ATO's website ato.gov.au (search under Paying benefits).

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Minimum Benefits

386. The trustees are required[176] to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred.

Payment of Benefits

387. Generally, benefit payments are triggered due to a condition of release being met. The 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[177] 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, attaining the prescribed preservation age for a transition to retirement benefit,[178] severe financial hardship and compassionate grounds which are assessed by the ATO in accordance with regulatory requirements.[179]

388. For pension payments, the auditor ensures that any payments meet the minimum and maximum,[180]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[181] which is calculated by applying a percentage rate, dependent on the member's age,[182] at the 1st July of the reporting year being audited, to the member's account balance. 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.

389. Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year[183] and the income from assets that support the pension will not be tax exempt for the year. [184]The ATO guidelines Self-Managed superannuation funds – starting and stopping a superannuation income stream (pension)[185] 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.

390. In the year of death, reversionary pensions continue to be paid based on the minimum pension factor of the primary beneficiary. Thereafter, the pension factor that applies to the age of the beneficiary applies. If the minimum pension is not paid in the year of the death, the trustee can self-assess to treat the fund as continuing to pay the pension if the shortfall is small, or resulted from an error. In all other cases, the pension is deemed to have stopped and accordingly, the trustee must ensure the death benefit is paid as soon as practicable. The options available for the payment of the death benefit include commencing a death benefit pension, paying the death benefit as a maximum of 2 lump-sums or, rolling over the death benefit to another superannuation fund for immediate cashing as a new death benefit pension. The trustee must however consider the terms of the fund's trust deed along with any member nominations that are on file when determining how the death benefit is to be paid.

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176 See regulation 5.08 of the SISR.
177 Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.
178 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.
179 Regulation 6.19A SISR .
180 Maximum payments exist for TRISs.
181 See subregulation 1.06(9A)(a) of the SISR.
182 See schedule 7 of the SISR.
183 ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and consequently when a superannuation income stream is payable.
184 See sub-regulation 1.06(9A) and Schedule 7 of SISR.
185 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).

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391. 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.

392. 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;

(c) the benefit has been calculated correctly in accordance with the method provided in the governing rules; and

(d) in the case of a retirement phase pension, the capital amount used to commence the pension was no more than the member's transfer balance cap.

393. 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 member declaration, or similar document stating that the individual has retired and will not be seeking paid employment in the future. Further substantiation could include employment separation documentation such as an employer letter.

394. 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.

395. 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 and it complies with the requirements in the fund's trust deed. The auditor ascertains where the death benefits have been paid to confirm that they have gone to either a dependant(s) or to the legal personal representative (LPR) of the deceased member. The auditor enquires as to whether any additional insurance benefit is payable.

396. A binding death benefit nomination for a SMSF must be made in accordance with the provisions of the trust deed for it to bind the trustee in the making of the death benefit payment decision. In the event a SMSF has paid a death benefit in the year being audited, procedures may include checking the form of any binding nomination on file against the terms of the trust deed and making enquiries to ensure that the benefit was paid according to the stated direction and that the nominated beneficiaries are entitled to receive death benefits under the trust deed and superannuation law.

397. 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.

398. Retirement phase income streams are pensions paid to a member following their satisfaction of a trigger event with a nil cashing restriction. The level of capital that can be applied to a retirement phase pension is restricted by the individual's transfer balance cap (TBC). The commencement of a retirement phase pension as well as a commutation (partial or full) is required to be reported against the individual's transfer balance account (TBA) within specific time periods. The review of the fund includes checking the reporting has been undertaken appropriately.

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Assignment of Members' Interests and Charges over Members' Benefits

399. 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,[186] or a charge over, or in relation to, a member's benefits.[187] Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

Contribution Restrictions

400. 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.[188] 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.

401. The auditor tests that the SMSF has accepted contributions in accordance with the SISR,[189] 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 years but is under 70 years and has been gainfully employed at least on a part-time basis (work test) during the financial year in which the contribution is made;[190]

(iii) the member is over 65 but is under age 75 and has a total superannuation balance of less than $300,000 (at the start of the year) and has satisfied the work test in the preceding 12-month period when the contribution is made. This work test exemption can be used in conjunction with the unused concessional contribution cap opportunity contribution category however, is a one-off opportunity (can only be used once)

(iv) the member is under age 67.or;

(v) the member is not under 70 years but is under 75 years 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 years 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.

186 See regulation 13.12 of the SISR.
187 See regulation 13.13 of the SISR.
188 See TR 2010/1 Income tax: Superannuation contributions.
189 See regulation 7.04 of the SISR.
190 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.

Draft

402. The auditor also tests that contributions are:

(a) within contribution caps specified in the SISR and the ITAA[191], being:

(i) if the member is 64 years 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 years but less than 75 years 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

403. The non-concessional contribution cap (NCC) is 4 times the concessional contribution cap or, Nil if the member's total Superannuation Balance (TSB) exceeds the general transfer balance cap (TBC) as at the start of the income year the contribution is made.

404. A member under 65 years of age may be entitled to bring-forward up to three years non concessional cap in a single year. The "bring-forward" rule is triggered in a year where a member makes a non-concessional contribution that is greater than the cap. The amount that is able to be contributed depends on the member's TSB at the start of the year as follows:

Total superannuation balance at start of year	**Maximum NCCs using bring-forward**
< $1.4m	3 x the single year
$1.4m - $1.5m	2 x the single year
$1.5m - $1.6m	1 x the single year
+ $1.6m	$0

405. If a member has a TSB below $1.4m at the start of the year and they trigger the bring-forward rule without maximising it, their TSB at the start of the following 2 years will determine their ability to complete the bring-forward.

406. 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; and
- The timing of when the contribution was made.

407. Ordinarily, the auditor checks to see that the classification of contributions are appropriate and allocated to the correct member account. (as per the contribution review)

Returning/refunding contributions

[191] ITAA 1997 section 292-85(2).

Draft

408. There are very limited circumstances where a SMSF trustee can return a contribution to a member or employer as follows:

   (a) A contribution received by a member who does not satisfy the age restrictions.

   (b) A member contributions received for whom the fund does not have a TFN must be returned to the contributor within 30 days of the amount being received[192]: However, the fund does not have to return such contributions if the member's TFN is quoted for superannuation purposes within 30 days of the amount being received by the trustee of the fund.

409. Contributions returned in accordance with the "law of restitution"[193]. The limited examples of the operation of the law of restitution include:

   (i) an amount is paid to a superannuation fund by mistake – it was intended for a different purpose;

   (ii) an amount is paid to a superfund that is greater than intended, for example, because of a clerical, transcription or arithmetic error.

A SMSF cannot return a contribution if it is in excess of the member's contribution limit. The excess contribution process is initiated by an "ATO Determination" which may provide the opportunity for the fund to return some or all of an excess contribution[194]

Audit procedures may include checking cash movements and validating receipts and payments along with substantiation of contributions received from employment arrangements. .

410. With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated to the correct member.

In-specie Contributions

411. 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 of a member without any cash being exchanged.

412. Where contributions are accepted in-specie, the auditor assesses whether:

   (a) the fund's governing rules permit in-specie contributions; and

   (b) the SISA prohibitions on acquiring assets from related parties (including members) have been satisfied.

413. 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 at market value (p11); and

   (c) not in breach of any other SISA prohibition.

Draft

[192] SISR 7.04(4)(a)

[193] See ATOID 2010/104 which includes case citation.

[194] The "fund-capped contributions" limit (former reg 7.04(3) of the SIS Regs) has been repealed for non-concessional contributions from 1 July 2017.

Downsizer contribution

414. A downsizer contribution received from a member over the age of 65 must be accompanied by a *Downsizer contribution into super* form (ATO NAT 75073-12.2018). The form ensures the contribution is not counted to the member's contribution caps as well as enabling the member to make a contribution without satisfying the work test and permits members with greater than a TSB of $1.6m to contribute up to $300,000 to super.

415. Where a downsizer contributions are accepted, the auditor assesses whether:

(a) The fund's trust deed permits downsizer contributions, or do not expressly prohibit the acceptance;

(b) There is sufficient evidence to confirm the member's eligibility to make the contribution;

(c) The member has not utilised the downsizer contribution opportunity previously.

Key risk areas may include:

(a) The 10 year holding period. One member of the couple must have owned the property for at least 10 years;

(b) The property is at least partially exempt from CGT under the main residence exemption; and

(c) The sale contract is dated after 1 July 2018.

Use of Reserves

Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the trustees is appropriate for the fund within the requirements of the SISA[195] and SISR, in accordance with the fund's trust deed and investment strategy, and ATO guidance provided in respect of the use of reserves[196].

If the reserve was established prior to 1 July 2017, the ATO has stated that it can be maintained by the SMSF if it is not being used to circumvent the various caps and thresholds introduced from 1 July 2017[197]. This includes manipulation of the *total super balance (TSB)* in order to make contributions to the fund that are otherwise prohibited by reference to the level of the TSB; a higher allocation to the retirement phase and; access to the segregated method to calculate ECPI percentage.

Funds maintaining investment reserves should consider the ongoing appropriateness of these as they are likely to attract Regulator attention. If a SMSF still operates an investment reserve, allocation 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.[198]

For contributions held in an unallocated contribution suspense account (formerly a contributions reserve) , the auditor checks to ensure the amounts have been allocated to members' accounts within 28 days after the end of the month in which the contributions were received.

Draft

[195] Section 115 SISA
[196] SMSF Regulator's Bulletin 2018/1 *The use of reserves by self-managed superannuation funds* published 15/3/18. SMSFRB 2018/1
[197] SMSFRB 2018/1
[198] See sub-regulation 5.03(1) of the SISR.

Allocations from other reserves will be classified as concessional contributions unless the allocation to member's accounts is less than 5% of the member's opening balance in the year of the transfer and all members receive an allocation.

Investment Returns

416. An auditor ordinarily checks to ensure that fund income is accurately credited or debited to relevant members' benefits in a way that is fair and reasonable.[199] The allocation should take into consideration all the members of the fund and the specific member accounts of each member of the fund.

Solvency

417. 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 and to the trustees in writing under section 130 of the SISA. The auditor completes Section G: Other Regulatory Information of the Audit Contravention Report (ACR).

418. Under the SISR,[200] the financial position of a SMSF is treated as unsatisfactory if, in the auditor's opinion 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.

Other Regulatory Information – Section G - ACR

419. In the course of conducting the audit, the auditor may obtain information regarding the SMSF, 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 may report any such information to the ATO in the ACR.

420. 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.

421. From 1 July 2019, a disclaimer making it clear that when an auditor provides information about a fund or trustee at Section G of the ACR, they are consenting to the disclosure of their identity to the SMSF trustee. If an auditor does not wish their identity to be disclosed, they would instead make an anonymous disclosure via the ATO website.

Other Compliance Engagement Considerations

Service Organisations

422. 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 performs additional procedures necessary to conclude on the SMSF's compliance with the SISA and SISR, for example, reviewing cash transaction accounts to conclude on 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:

Draft

[199] See sub-regulation 5.03(2) of the SISR.
[200] See regulation 9.04 of the SISR.

(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 completed at market value and is a permitted acquisition; or

(c) Confirmation that, to the knowledge of the service provider, none of the investments held is pledged as security.

423. 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

424. 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

425. 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;

(b) a trustee under SISA sections 129 or 130;[201]

(c) the ATO, in an ACR, under SISA sections 129 or 130; and

(d) the trustees in the auditor's compliance report.

426. 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.

427. 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 tests specified in the ACR instructions;[202] 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.

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[201] 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.

[202] 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.

Draft

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.[203]

428. ASAE 3100 requires the auditor's report on compliance to be modified if, in the auditor's judgement, material non-compliance with a requirement 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.

429. 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 uses professional judgement.

430. 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.

431. 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.

432. 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.

Draft

[203] See "Solvency" at paras 416-417.

Appendix 1

(Ref: Para. 66)

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 Australian Tax Office, which are sections 17A, 35AE, 35B, 35C(2), 62, 65, 66, 67, 67A, 67B, 82-85, 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.[204]

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, including those pertaining to independence, and to plan and perform the audit in order to obtain reasonable assurance as to 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,

[204] These sections and regulations need to be amended if there are any changes to the sections and regulations in the ATO approved form auditor's report.

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 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 letter to the Trustees.

Compliance Engagement

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' . Our procedures will include testing whether the investments are made for the allowable purposes and in accordance with the investment strategy and legislative requirements. Our engagement does not include providing an opinion on the appropriateness of investments for fund 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.[205] 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; and

[205] If the SMSF is a reporting entity or, from 1 July 2020 has a new or, amending trust deed that requires the preparation of financial statements in accordance with AAS, 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."

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- 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, relevant to the conduct of the audit, that the auditor requests in writing within 14 days of the request.

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.[206]

[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 shall advise you. The same strict confidentiality requirements apply under these programs as apply to us as your auditor.

[Limitation of liability][207]

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[206] The auditor should retain an original hard copy in the working papers.

[207] 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 (revised August 2019), 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.

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.]

[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

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Appendix 2

(Ref: Para. 135)

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.[208] 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 the 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

[208] 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.

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Disqualified person

A person (including a director of a corporate trustee) must not intentionally be, or act as, a trustee or a director of a corporate trustee of a super fund if they are and know that they are, a disqualified person [section 126K of the *Superannuation Industry (Supervision) Act 1993* (SISA)].

An individual is a disqualified person if they:
- have ever been convicted of an offence involving dishonest conduct in any country
- have ever been subject to a civil penalty order under the SISA
- are an undischarged bankrupt, or
- have been disqualified by the Regulator.

A body corporate is a disqualified person if:
- a responsible officer of the body corporate is a disqualified person
- a receiver, receiver and manager, administrator or provisional liquidator has been appointed to the body corporate, or
- action has commenced to wind up the body corporate.

Acting while disqualified
If a trustee of a self-managed super fund (SMSF) is, or becomes, a disqualified person, they must immediately tell the Commissioner in writing, and must resign as a trustee as soon as possible.

If a disqualified person acts as an individual trustee or a director of a corporate trustee of an SMSF, this will not result in a fund failing to meet the definition of an SMSF until 6 months after the person become disqualified, however will result in the disqualified person contravening section 126K of the SISA.

Penalties can be applied to those who act as trustees while disqualified, including imprisonment for two years.

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), 62, 65, 66, 67, 67A, 67B, 82-85, 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.

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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's contravention report].

4. Investment strategy

The investment strategy has been determined and reviewed taking into account the circumstances of the fund as a whole with due regard to risk, return, liquidity and diversity.. As Trustees we have ensured the assets of the Fund have always been in line with this strategy. As trustee we have considered the insurance needs of Fund members in determining the investment strategy.

5. Asset form and valuation

Investments are carried in the books at market value. We consider the valuations within the financial statements are 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.

6. 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 by the trustee in accordance with legislative requirements and the fund's trust deed.

7. 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:

- accounting records and financial reports are being kept for five years,
- minutes and records of trustees' [or directors of the corporate trustee] meetings [or for sole trustee: decisions] are being kept for 10 years;

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- 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
- trustee declarations in the approved form have been signed and are being kept for each trustee appointed after 30 June 2007.

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.

9. Significant assumptions

   We believe that significant assumptions used by us in making accounting estimates are reasonable.

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.

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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.

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 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.

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.

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 the financial statements are not misleading as to the financial position of the Fund or its operations.

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.

There have been no communications from the ATO concerning a contravention of the 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.

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.]

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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 the 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]

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Appendix 3

(Ref: Para. 76)

SELF-MANAGED SUPERANNUATION FUND GOVERNING RULES PRELIMINARY UNDERSTANDING 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 individuals or a corporate entity?
C.3	Are all individual trustees or directors of the trustee company required to be members?

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Ref	Questions to be addressed in examining the trust deed
C.4	Does the deed permit members to be • A non-working spouse? • A retired person? • A child?
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	If a new fund or, deed has been amended, from 1 July 2020, does the deed specify the financial statements are to be prepared in accordance with the AAS? If so, the fund is required to prepare General purpose financial statements.
D.4	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?
	• Downsizer contribution
	• 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?
	• Unused concessional cap carry forward – “catch-up contributions”

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	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? Where a trust deed specifies a compulsory cashing event, provided it does not extend the law, it provides authority for the payment. For example, if the deed states that members must commence drawing their accrued benefits from age 65, all members who are at least 65 years of age should be in receipt of a benefit.
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
F.3	Does the deed provide for members to make death benefit nominations - Does the deed provide authority between death benefit nominations and reversionary pensions?

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Ref	Questions to be addressed in examining the trust deed
F.4	Does the deed include specific provisions relating to the payment of death benefits?
G	**PENSIONS**
G.1	Does the deed expressly allow for payment of pensions by the SMSF, including*: • Account based pensions. • TRIS, including the auto conversion to a retirement phase TRIS following a nil cashing restriction trigger event. • Reversionary beneficiaries to be nominated. • Allocated pensions. • Term allocated or market linked or growth 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?
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 in which the SMSF may invest?
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?

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Appendix 4

(Ref: Para. 81)

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 the 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. Auditors verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions[209].

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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 is appropriately scoped to cover 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: • A signed copy of the Fund's governing rules. • Signed audited financial reports for the prior year, including the signed prior year's auditor's report. • Minutes/resolutions of trustee meetings. • Copy of the fund's investment strategy.
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 an 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.

[209] 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: https://superfundlookup.gov.au/ • Place copy on audit file.
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 auditor’s 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 period’s 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 period’s financial report. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor considers 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. • 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. • New funds, and funds where the trust deed has been amended, from 1 July 2020 must be reviewed to ensure the financial statements are not required to be prepared in accordance with AAS. If there is a specific provision requiring this, general purpose financial statements (GPFS) are required. NOTE: the deed must specify “in accordance with AAS” for GPFS to apply to the fund. “In accordance with accounting standards”, does not prescribe the requirement for GPFS to be prepared.

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Ref	Audit Procedure
D	**UNDERLYING ACCOUNTING RECORDS**
D.1	Obtain a copy of the SMSF's general ledger and agree the 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.
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 up and 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 bank 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. • Obtain a third party authority in order to liaise with the financial institution. Investigate whether online access is available via the third party authority. Internet banking includes a third party access permission whereby an individual login is issued to the nominated user. • 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. • Review substantial entries and trace back to source (contributions, asset transactions, benefit payments).
E.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 (such as trustee minutes and subsequent bank statements to evidence the cash was received by the SMSF prior to and was deposited within a few days of period end. Alternatively evidence the source of the cash as a method of reconciling the transaction's validity.
F	**INVESTMENTS**
F.1	<u>General</u> 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	<u>Foreign Currency Transactions</u> Check to ensure that all investments are recorded in Australian dollars and that if foreign currency transactions occur they are converted at the appropriate currency rates and accounted for correctly.

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Ref	Audit Procedure
F.3	Investor Directed Portfolio Services (WRAP accounts) • Obtain the relevant auditor's report issued in accordance with ASAE 3402. • Confirm investments held by a custodian are identified as belonging to the SMSF - Conduct sample testing of the IDPS operator's asset transactions. Other tests could include obtaining correspondence between the SMSF trustee and the IDPS operator regarding the transactions such as a Statement of Advice. • 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. • Where data has been transmitted via data feeds, a ASAE 3402 Type 2 Audit Report in respect of the process and controls should be obtained.
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 at market value (SISR regulation 8.02B).
F.5	Property • 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 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.

Draft

Ref	Audit Procedure
F.6	<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 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.
F.7	<u>Widely Held Unlisted Unit Trusts and Managed Funds</u> 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 regulation 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	<u>Unlisted Closely Held Unit Trusts</u> 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. - Making 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. 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.

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Ref	Audit Procedure
F.9	<u>Pooled Superannuation Trusts and Life Insurance Policies</u> • 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).
F.10	<u>Assets subject to Limited Recourse Borrowing/ Arrangements</u> • 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 deposit for the acquisition was paid from the SMSF cash balance. - 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: o A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or o A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or o 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 lender's 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. - For non-bank loan arrangements, review the loan agreement and check whether the terms are in accordance with the "safe-harbour" guide detailed in PCG 2016/5 and that the terms have been honoured. The safe-harbour terms provide a standard to demonstrate that the arrangement is "arm's length" and thereby not subject to the NALI level of tax. • 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.

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Ref	Audit Procedure
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 the asset. • For all collectibles and Personal Use Assets, obtain evidence of: - Insurance policy or premium payment for insurance of the asset. - Lease documents, if leased to another party. - Storage arrangements. - Review the Personal Property Securities Register (PPSR) to ensure the asset(s) isn't encumbered. Retain in audit file. • 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. - Making 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). - Assessing 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 trustee has undertaken the valuation).
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.
G.6	If the accounts are prepared on a cash basis, ensure a reconciliation is on file to validate the actual distributions received compared to those recorded on the annual tax statement.
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**

Ref	Audit Procedure
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, 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 members' entitlements.
J	**RESERVES –**
J.1	Reserves established prior to 1 July 2017 are permitted in accordance with section 115 SISA and the fund's trust Deed however, the management of these reserves must take into account the ATO's views in SMSFRB 2018/1.
J.1	Review SMSFRB 2018/1 – ATO's view on SMSFs and reserves The range of reserves permissible by a SMSF is limited and the Regulator Bulletin highlights the boundaries. Reserves established since 1 July 2017 require particular scrutiny in light of the Regulator Bulletin. The particular focus is where reserves are utilised to circumvent the Super17 reforms that apply restrictions to the lev of tax concessions available to super: • TSB manipulation in order to make NCCs; • Reduce member balance to less than $500k in order to make "catch-up contributions"; and • Use of reserves to reduce the member balance in respect of TBA reporting.
J.2	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.3	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.4	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
J.5	Any allocation from reserves is in accordance with the trust deed and subsection 292-25(3), Regulation 292-25.01 (concessional contributions). The allocation can have implications for the member if in excess of their concessional contribution cap.
K	**INVESTMENT AND OTHER REVENUE**
K.1	Analytical Review • 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 the period of the audit and confirm that the return is reasonable and not under or overstated.
K.2	Interest Income • 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 conduct analytical review procedures.
K.3	Changes in Market Value • Conduct an analytical review. • Test the changes in market value calculations including realised changes in market value to ensure that they are correct. • Reconcile to investments, for substantive audits.
K.4	Dividends • Vouch dividends received to dividend slips, published dividend rates or registry details. Generally, two dividends are paid each year. Vouch these as an initial test. • 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.
K.5	Trust Distributions • Vouch distributions received and receivable to distribution advices, ensuring that the discounted capital gains and other income has been correctly classified for tax purposes. Some tax statements issued apply a 50% discount to capital gains – check the percentage applied is applicable to SMSFs.

Ref	Audit Procedure
K.6	Rental Income • Conduct an analytical review against rental agreement and period of tenancy. • Vouch rental income against agent’s statements or other records, 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. • Check any rent reviews in the lease agreements during the period have been correctly applied. • Audit files should include a copy of the lease agreement and be carried forward annually until the term of the lease expires.
K.7	Other Income • If the SMSF receives other forms of income ensure that these are correctly calculated, earned and disclosed.
K.8	Non-arm’s length income - NALI • Review transactions and investment acquisitions for the potential for the imposition of NALI. NALI can also be invoked from *non-arm’s length expenses – NALE*. A significant impact to the tax calculation can occur if NALI is present and not reported.
L	**CONTRIBUTIONS AND TRANSFERS IN**
L.1	Concessional contributions • Review the amounts, frequency and pattern of contributions and if you suspect contributions are being diverted to the fund seek confirmation of the contribution directly from the employer. All employers are required to report super contributions via the *single touch payroll (STP)* system. • Where the contributions are from a related employer, ensure you verify the contributions via the STP process. Small employers (less than 19) with ‘closely held employees’ are exempt from the use of STP until 1 July 2020 for the closely held payees only. If STP hasn’t been enabled, manual verification is required.. • 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 (or notice prepared in accordance with the requirements of s 290-170 ITAA 1997) and confirm the details are consistent with the accounting treatment. • Review the receipt of “catch-up contributions” to ensure the qualifying conditions were met for the fund to receive the contribution. The 2020 financial year is the first year of operation of carry forward unused concessional contribution cap. Unused contributions are no longer available after year 5 and no unused contribution is available if the member’s total superannuation balance at the start of the income year is $500,000 or more. Audit files could include documentation verifying the members qualification to utilise the catch-up opportunity. • For members > 65, verify the substantiation that the work test has been met and the contribution was permitted. • Ensure only mandated contributions received for members aged +75. • Ensure no-TFN contributions were received.
L.2	• Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.
L.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. •
L.4	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
L.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.

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Ref	Audit Procedure
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 to the prior year members' 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. • Audit workpapers to include evidence of the validity of benefit payments to members. • Confirm that each benefit was paid in accordance with the terms of the fund's governing rules. • For death benefits, 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 commenced in the year under audit, sight the medical certification regarding the inability of the member to work again. • For a total and temporary permanent disability benefit commenced in the year under audit, sight the medical certification regarding the temporary inability of the member to work. • 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.
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 or, is a SMSF with "disregarded small fund 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. • Franking credits from dividends are correctly adjusted. • Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly. • CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount. • Request asset register for cost base reset investments - CGT Deferral in the 2017 financial year. Verify the CGT calculation of any sales and adjust the register. • Foreign tax credits are correctly adjusted. Foreign tax credits can only be offset to the extent of foreign tax paid, or deemed to have been paid, on foreign income. Foreign tax offset claims of more than $1,000 are determined according to the *foreign income tax offset limit*. See worked example from the ATO: Foreign Tax Offset. •
	• Confirm whether 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.

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Ref	Audit Procedure
O.2	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. • Prove 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 issue can arise when a fund has been wound up and the members were paid benefits exceeding their entitlements. 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. • Consider a modification to the auditor's report. • Solvency issues may be identified if the financial statements have not been correctly stated at market value. If you cannot obtain appropriate substantiation of the market value of significant fund assets or liabilities, you may not be able to attest that the fund is a "going concern".
Q	**SUBSEQUENT EVENTS**
Q.1	Identify any subsequent events which would affect the financial report, 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.

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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; • Auditor's views about significant findings from the audit engagement; - Significant matters discussed with the trustees include uncorrected 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; • Confirmation as to the independence of the auditor.

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Appendix 5

(Ref: Para. 59)

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 (including Independence Standards)[210], 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 Code of Ethics as required by Regulation 9A.06 of the SISR.[211]

	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 into arrangements with a range of independent practitioners or firms for referral of SMSF audit engagements. It is important that these arrangements are subject to regular rotation to maintain independence and avoid self-interest, familiarity and intimidation threats. Your engagement should be directly with the SMSF Trustee not via an agency with the referring practitioner.
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. If the audit engagement was terminated, the resultant loss of work may be overcome by entering into arrangements with a range of independent practitioners or firms for referral of SMSF audit engagements. It is important that these arrangements are subject to regular rotation to maintain independence and avoid self-interest, familiarity and intimidation threats. Your engagement should be directly with the SMSF Trustee not via an agency with the referring practitioner.
5. A two partner practice in which one partner is asked to	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.

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[210] Issued June 2010: amended 2011, 2013, 2017, April 2018 – (compiled November 2018) with effect from January 2020.

[211] In addition to these examples, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide*, Fifth Edition, 2020.

	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
audit the SMSF of which the other partner is a trustee.						
6. the SMSF's accounts and the other partner conducts the audit. The preparation of the financial statements is considered "routine and mechanical in nature".	X	X			X	Routine and mechanical in nature would apply in situations where the accountant does not need to exercise professional judgement. Examples include; where the SMSF's investments are relatively straightforward (listed shares and term deposits for example) or, where the SMSF trustee prepares the trial balance. 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 the accounting work performed by the firm and disclosing to the trustees the firm's involvement in both engagements.
7. A two partner practice in which one partner prepares the SMSF's accounts and the other partner conducts the audit. The preparation of the financial statements IS NOT considered to be routine and mechanical in nature	X	X			X	No safeguards are available which would enable the practitioner to perform audit work, as this involves a clear self-review threat. The auditor would not undertake the audit engagement.
8. 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.
9. A firm prepares the SMSF's annual return and also undertakes the audit of the SMSF.		X				Where the client takes responsibility for the SMSF annual return including any significant judgements, it will not generally create threats to independence.
10. 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	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.

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	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
from the service provider.						
11. 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.
12. 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.
13. 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.
14. A practitioner or firm providing administrative services to numerous SMSFs, outsources all of the SMSF audits to one approved SMSF auditor.		X				The practitioner has implemented appropriate safeguards to avoid a self-review threat by referring the audit work to another auditor and it is the responsibility of that auditor to ensure that they are not as reliant on the referrals from the practitioner as to create a self-interest or intimidation threat.
15. Reciprocal auditing arrangements - Two Auditors who audit each other's SMSF - Two Accountants, also Auditors, audit each other's book of SMSFs	X			X	X	ATO and ASIC consider no safeguards can be put in place to eliminate independence threats in relation to a reciprocal auditing arrangements where two auditors audit each other's SMSF. See ATO Guidance. Safeguards for reciprocal audit arrangements involving two accountants who are also auditors could include ending the reciprocal arrangement or, spreading their referrals across a range of practitioners as well as being subject to frequent rotation, to limit independence threats. See ATO Guidance
16. Family relationships between Auditor and Accountant who conduct separate practices.	X			X	X	The family relationship may compromise the auditor's objectivity when conducting the SMSF audit and self-interest, familiarity and intimidation threats may be present. The Practitioners need to assess their ability to maintain independence in their respective engagements and document their self-assessment thoroughly. Safeguards may include ensuring direct engagement with the SMSF trustee including billing and not limiting audit sampling for each SMSF that is a client of the relative's firm. The auditor would find it more difficult to prove their independence if all the SMSF audits were generated by referral from the relative's firm. Having a

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	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
						broader audit client book would provide some mitigation from the independence threat.

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Agenda Item 5.3
AUASB Meeting 116 – April 2020
Marked Up version

GS 009
(April 2020)

Guidance Statement GS 009
Auditing Self-Managed Superannuation Funds

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

Draft

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

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on certain procedural, entity or industry specific matters related to the application of an AUASB Standard(s).

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).

Guidance Statement *Auditing Self-Managed Superannuation Funds* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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CONTENTS

AUTHORITY STATEMENT

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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.

This Guidance Statement does not prescribe or create new requirements.

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Dated: <TypeHere>

R Simnett AO
Chair - 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) an audit of a self-managed superannuation fund's (SMSF's) ~~special purpose~~ financial report[1], ~~-~~(financial audit) prepared as 'Special Purpose Financial Statements'(SPFS); and

   (b) an 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 audits of Australian Prudential Regulation Authority (APRA) regulated superannuation entities.[2]

Issuance Date

3. This Guidance Statement is issued on XXXX 2020 by the AUASB and replaces GS 009 *Auditing Self-Managed Superannuation Funds* ~~Auditing Self-Managed Superannuation Funds~~, issued in September 2015. ~~The content of this Guidance Statement includes reference to legislative requirements which came into effect during 2014 and 2015.~~

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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[3] 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 a fund's governing rules, which include the trust deed and applicable 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"[4] under the SISA.

5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),[5] 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.[6] The auditor reports to the trustees[7] in the "approved form", as issued and updated from time to time, by the ATO,[8] which includes opinions under two sections:

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[1] Section 35B of the SISA requires the preparation of "accounts and statements," expanded by Part 8 of the SISR. For a detailed discussion, refer to Trustee Responsibilities in this Guidance Statement. .

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

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

[4] 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.

[5] Approved SMSF auditor is defined in paragraph 13.

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

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

[8] 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 is available from the ATO's website www.ato.gov.au/Superfunds.

(a) Part A: Financial report; and

(b) Part B: Compliance report.

6. This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which the auditor has with respect to conducting SMSF audits, 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.

~~(c)~~(d) Appendix 1 – 5 which provide sample templates, checklists and examples of the application of the independence requirements.

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.[9]

10. This Guidance Statement does not provide guidance on auditing a defined benefit fund[10] as these funds are not prevalent as SMSFs.

Definitions

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

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

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(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

(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 an exception and the trustee has the skills to perform the service. [12]

12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA[13] 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[14] 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.

13. An approved SMSF auditor[15] is a person who is registered as an approved SMSF auditor with ASIC[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 entity.

12 Section 17B of the SISA allows for exceptions in relation to remuneration of trustees.
13 See subsections 17A (3) & (4) of the SISA.
14 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*.
15 See subsection 10(1) of the SISA.
16 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.

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Trustees' Responsibilities

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 relevant 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 of the SISA, which are in summary to:

    (a) act honestly;

    (b) exercise care, skill and diligence;

    (c) act in the best interests of beneficiaries;

    (d) 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;[17]

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

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

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

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

    The trustees' compliance responsibilities are summarised on the SMSF page of the ATO's website.[18]

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 for lodgement of the SMSF annual return.[19]

Financial Reporting and Accounting Standards applicable to SMSFs

Accounting and financial reporting by SMSFs~~superannuation funds~~ are governed by:

16.

    (a) AASB 1056 *Superannuation Entities* from 1 July 2016 (AAS 25 *Financial Reporting by Superannuation Plans*(~~has been~~ (superseded) and other applicable Australian Accounting Standards, including the Australian International Financial Reporting Standards (AIFRS);

    (b) The SISA and the SISR;

    (c) ATO publications and guidelines;

    The Fund's Trust Deed; and,

[17] See regulation 4.09A of the SISR.
[18] See https://www.ato.gov.au/Super/Self-managed-super-funds
[19] See regulation 8.02A of the SISR.

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(d) AASB 2020-2 March 2020

SMSFs, where the members are also the trustees, are generally not considered reporting entities and as such ~~would ordinarily~~ prepare a special purpose financial report, and would not typically adopt AASB 1056 *Superannuation Entities*.

17. In March 2020,~~AASB~~ AASB 2020-2- *Amendments to Australian Accounting Standards - Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* was issued. The standard removes the ability of certain for-profit private sector entities to self-assess their reporting requirements and prepare special purpose financial statements with effect from 1 July 2021.

18. In accordance with the Standard, SMSFs are required to prepare general purpose financial statements where their “constituting, or other documents, created or amended, on or after 1 July 2020, specifically require financial statements to be prepared in accordance with AAS”[20].

It remains the trustee’s responsibility for the selection of the accounting framework and the auditor’s responsibility to assess ~~express an opinion on~~ the appropriateness of the framework[21] as part of the preconditions of accepting an engagement for the individual SMSF. Audits of funds from 1 July 2021 ~~implementation~~require an additional check on the appropriateness of the accounting framework adopted by the SMSF in light of AASB 2020-2~~the new Standard~~..

Accordingly, further consideration may be applicable ~~required~~ when applying GS 009 for the audit of a SMSF that is required to prepare financial statements under the general purpose financial reporting framework (GPFS).

~~16.~~19. In the absence of the specific trust deed ~~ing~~indicating ~~s for~~ the preparation of financial statements in accordance with AAS, legislative requirements prevail.

Financial statements ~~formats~~ prescribed by SISA and SISR

The financial statement formats for SMSFs are set out in the SISA s. 35B and the SISR r. 8.01. SISA. Under section 35B, most SMSF are required to prepare an operating statement and a statement of financial position[22]. Regulation 8.02B requires financial statements to record assets at their market value.

~~17.~~ 20. SISA s. 35B also requires the financial statements to be signed by two signatories, except in the case of a single member fund with a sole director corporate trustee company, where one signatory is permitted.

20.

~~18.~~ 21. The measurement and recognition criteria applied to SMSFs are at the discretion of the trustee; however, the trustee must take into account:

21.

(a) the trust deed requirements;

(b) the member structure; and

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20 https://www.aasb.gov.au/admin/file/content105/c9/AASB2020-2_03-20.pdf

21 See ASA 210 paragraph 6(a) which establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.

22 Regulation 8.01 SISR states that some defined benefit SMSFs are excluded from preparing financial statements under section 35B if the trustee prepares a statement of net assets and a statement of changes in net assets for the fund.

(c) SISA and SISR requirements.

22. ASA 260 *Communication W~~w~~ith T~~t~~hose C~~c~~harged W~~w~~ith G~~g~~overnance* requires auditors to communicate their view's about 'significant qualitative aspects of the entity's accounting practices" and provides examples of matters that may be included in that communication including the appropriateness of the accounting policies to the circumstances of the entity being audited. The auditor will determine the appropriate form for this communication which may include the audit management letter.

Auditor's Responsibilities

~~19.~~23. The professional obligations of approved SMSF auditors under the SISA[23] are to:

(a) complete the continuing professional development requirements prescribed by the regulations;[24]

(b) hold a current policy of professional indemnity insurance;[25]

(c) comply with:

(i) any competency standards[26] ASIC determines;

(ii) any standards issued by the AUASB (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 (APESB) and set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) ("~~(~~C~~c~~ode of E~~e~~thics); "~~)~~ as prescribed by the regulations.[27]

~~20.~~24. 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.~~[28]~~ For example, members of CPA Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and Institute of Public Accountants (IPA) are required to comply with competency requirements~~[29]~~[30] 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 are to ensure

23 See subsection 128F of the SISA.
24 See regulation 9A.04 of the SISR.
25 See regulation 9A.05 of the SISR.
26 See ASIC Class Order CO 12/1687 *Competency Standards for approved SMSF auditors.*
27 See regulation 9A.06 of the SISR.
~~28 See competency standards for Fellows of the National Tax and Accountants' Association (NTAA) auditing SMSFs (December 2008) issued by NTAA.~~
~~29 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). https://www.charteredaccountantsanz.com/member-services/technical/superannuation/smsf-audit-services~~
30 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.
~~https://www.charteredaccountantsanz.com/member-services/technical/superannuation/smsf-audit-services~~

that they are up-to-date and compliant with any applicable competency requirements imposed by their professional bodies in accepting and conducting SMSF audits.

~~21.~~25. 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,[31] 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;[32]

(b) report in writing to 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, within 28 days, to the ATO[33] using the approved form auditor/actuary contravention report (ACR) and instructions (ACR instructions),[34] 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).

~~22.~~26. 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).

~~23.~~27. 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 ATO approved form auditor's report based on the compliance engagement, conducted "in accordance with applicable Standards on Assurance Engagements".

In addition, the ATO 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.[35]

31 See section 35C of the SISA.
32 See regulation 8.03 of the SISR.
33 While the SISA (sections 129 and 130) requires reporting as soon as practicable after forming the opinion, it is the ATO's practice to require lodgement within 28 days of signing the auditor's report.
34 *Auditor/actuary contravention report instructions* (NAT 11299) and ACR (NAT 11239), see: www.ato.gov.au/ Superfunds
35 ASIC class order CO 12/1687.

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Conduct the Financial Audit and Compliance Engagement in Accordance with ASQ~~C~~M 1

~~24.~~28. ASQC 1 *Quality Management~~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

~~25.~~29. 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 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 fund trustee of the existing terms of the audit engagement. The auditor obtains the trustee's acknowledgement that their responsibilities under the 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. This includes determining whether the financial reporting framework to be applied in the preparation of the financial report is appropriate.

(d) ASA 220 *Quality ~~Control~~ Management for an Audit of ~~a~~ Financial ~~Report~~ Statements ~~and Other Financial Information~~* requires the engagement partner to determine given the nature and circumstances of the audit engagement:

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(i) responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members,

(ii) an understanding of the relevant ethical requirements, including those related to independence, that are applicable.

(iii) that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate.

(iv) that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate.

(v) any changes that may arise during the engagement, that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team by the firm in a timely manner.

(vi) take responsibility for the direction and supervision of the members of the engagement team and the review of their work.

(vii) prior to dating the auditor's report, determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, they shall determine that their involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate.

~~(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

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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.

For example, rental income received from a non-arm's length arrangement is tested and the a~~A~~uditor's conclusions are recorded in the working papers.

Where the a~~A~~uditor's conclusions rely on their professional judgement, the working papers should provide appropriate documentation~~notes~~ as to the methodology and/or reasoning that led to the conclusion; and

The use of a 'completion memorandum' is useful as a summary of the conduct of the audit and how the opinion was formed~~made~~.~~; 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~~.~~

Audit file retention is not mandated however, paragraph 69~~A61~~ of ASQM~~CC~~ 1 requires the audit firm to establish a period of time for the retention of documentation for the system of quality management that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality management, or for a longer period if required by law or regulation. ~~retention of audit working papers for a minimum of 5 years which is in line with t~~The SISA requirement is to retain ~~ention of~~ financial reports for a period of 5 years. ~~ISQM 1 at paragraph 69 states the period of documentation should be 'sufficient to permit those performing monitoring procedures to evaluate the firm's system of quality management, or for a longer period if required by law or regulation'.~~

~~s307B Corporations Act 2001 requires audit working papers to be retained for a period of 7 years after the date of the audit 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.[36]

(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[37]~~.~~

ASA 250 is particularly relevant due to ~~This sStandard is largely satisfied via~~ the requirement for a SMSF to have an annual Compliance Audit.~~ and is generally reflected in the aAudit pPlanning stage.~~ Where non-compliance of SISA or SISR is identified, the a~~A~~uditor is required to assess the impact, if any, on the f~~F~~inancial r~~R~~eport.

36 Due to the few persons generally 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.

37 The ATO has published a Checklist for SMSF Auditors which is designed to assist SMSF Auditors to understand what the ATO ordinarily considers ~~looks for when they review~~sufficient and appropriate -audit documentation for an SMSF.~~their work~~

Most breaches of tax law result in additional tax applied at the member level individually rather than at a fund level and often do not have a material impact on the financial statements. In the case of material excess contributions, the a~~A~~uditor may modify their opinion on the financial statements if it is likely the excess contribution will be required to be withdrawn from the fund in future years and the result will be significant to the fund's financial report.

Compliance breaches identified as a result of the audit are reported to the ATO for regulatory action. If, in the opinion of the a~~A~~uditor, the breach could result in the material misstatement of the financial report (in future years), they should consider modifying their opinion on the audit of the financial statements – Part A qualification.

This is in addition to any modification of opinion in respect of the Compliance Audit – Part B qualification.

An example of a compliance breach that may cause the material misstatement of the SMSF's financial statements is where there is a breach of the *in-house asset rules (IHA)*. A review of the rectification plan to determine the impact, if any, on the financial report will be required for the a~~A~~uditor to determine whether they modify their opinion.

An example of where there could be material misstatement of the financial statements without breaching any legal requirements is when the fund incurs *non-arm's length income or expenses (NALI/NALE).* The tax calculation, and therefore the closing member balances, could be materially misstated if NALI/NALE is not reported. In this instance, the a~~A~~uditor may consider modifying their opinion on the financial statement audit.

~~For example,, non-compliance with requirements of the SISA, SISR or taxation legislation by an SMSF,~~

~~such as early access to benefits or significant in-house assets, may expose the SMSF to additional tax liabilities which may impact materially on the SMSF's financial report.~~

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(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 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. The a~~A~~uditor may~~could~~ also consider issuing a~~n~~ ~~*Audit Completion Letter* or a M~~management ~~L~~letter or some form of audit completion document to the Trustee. The management letter can also be used to tell the trustees about any section 129 SISA contraventions identified during the audit that did not meet the reporting criteria for the lodgement of an auditor/actuary contravention report.

The a~~A~~uditor's engagement is with the SMSF trustee and as such the auditor ~~you shouldn't seek to~~ communicates directly with the SMSF trustee rather than indirectly such as via the referring a~~A~~ccountant~~, for example~~.

The a~~A~~uditor has a direct responsibility to the trustee and should not seek to rely on the representations of other parties.[38]

38 *Cam & Bear Pty Ltd v McGoldrick [2018] NSWCA 110 and Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502

~~(g)~~(i) ASA 265 *Communicating 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. Regardless of whether or not the auditor has relied on internal controls, deficiencies of internal controls identified during the audit may still need to be communicated with the trustees of the fund.

~~(h)~~(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.

~~(i)~~(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 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.

~~(j)~~(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.

~~(k)~~(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.

~~(l)~~ 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 SMSF and relevant to the audit and, if so, the auditor is required to obtain a sufficient understanding of the SMSF 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.

(n) ~~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.~~

Part A of Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides ~~further~~ guidance to a~~n~~ "user auditor" on the application of ASA 402 in respect of investment management services. Investment Management Services may include WRAP platforms (IDPS), custodial asset management, management accounts (SMA, IMA). ~~in obtaining sufficient appropriate audit evidence when the SMSF uses a third party service organisation for investment management services, including custody, asset management or investment administration.~~

GS 007 provides guidance for the preparation, and use as audit evidence, of two types of Control Reports – Type 1~~A~~ and Type 2~~B~~ - stating a Type 1~~A~~ Report can be used in applying ASA 315 to the audit planning and, a Type 2~~B~~ Controls Report can be used by the auditor in applying ASA 330.

A Type 2~~B~~ Control~~s~~ Report, containing an unmodified opinion, ordinarily provides the user auditor with sufficient appropriate audit evidence as to the reliability of controls over the investment management services provided by the service organisation to the user entity and accordingly may enable the user auditor to reduce the extent of substantive testing that might otherwise have been necessary with respect to the balances or transactions subject to those services. A Type 2~~B~~ Control Report does not however eliminate the need for substantive procedures altogether, as ASA 330 requires the auditor, irrespective of the assessed risk of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance and disclosure.

ASAE 3402 *Assurance Report on Controls as a Service Organisation* is the standard applied by the service organisation ~~for the~~ auditor that produces a Controls Report that can be used as appropriate evidence under ASA 402. The standard provides for the issuance of either Type 1 or Type 2 reports. Only Type 2 reports provide reasonable assurance that the control objectives within the organisation were achieved through the reporting period.

~~The use of d~~Data feeds ~~for the transfer of information required for the preparation of a SMSF's financial report~~ may be used by investment management providers, as well as by other entities ~~—~~such as financial institutions and share registries, for the transfer of information required for the preparation of a SMSF's financial report. Typically this results in the source documentation being retained by the service organisation and therefore, additional audit consideration regarding the planning, testing and forming of an opinion is required.

In using a ~~"~~Type 2~~"~~ service auditor's report issued in accordance with ASAE 3402 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.

~~(m)~~(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 which includes the documentation of their testing and how the results may impact the audit opinion.~~.~~

~~(n)~~(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 that they are 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

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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.

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

~~(p)~~(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, by determining whether the prior period closing balances have been correctly brought forward and that appropriate accounting policies are applied consistently.

~~(q)~~(t) ASA 520 *Analytical Procedures* In addition to requirements relating to substantive analytical procedures, the standards require 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 SMSF.

~~(r)~~(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.

~~(s)~~(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 a SMSF. The requirements and guidance in ASA 540 are particularly relevant to the audit of trustees' valuations, which are common in SMSFs. Regulation 8.02B of the SISR requires SMSF assets to be valued at market value.

~~(t)~~(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[39] in the financial report.

~~(u)~~(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.

~~(v)~~(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.

~~(w)~~(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 that they have selected as appropriate for the SMSF, that they have provided the auditor with all relevant information and access, and that all transactions have been recorded and

[39] 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*.

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reflected in the financial report. In the case of a SMSF, these representations are obtained from the trustees.

~~(x)~~(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 opinion in an auditor's written report. ~~The use of the special purpose reporting framework for the financial report is at trustee discretion.~~

From 1 July 202~~0~~1, if a SMSF's establishment trust deed or, and an existing trust deed is amended, and includes the requirement to prepare financial statements in accordance with the Australian Accounting Standards, the trustee must consider whether they are required to prepare the financial report under the general purpose reporting framework.[40]

~~(y)~~(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.

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

~~(aa)~~(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.

ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* specifies the requirements of the auditor's report on special purpose financial reports, which for SMSFs is reflected in the ATO approved form auditor's report issued by the ATO.[41] Auditor's reports for SMSFs include an Emphasis of Matter paragraph drawing attention to the note in the financial report which describes the basis of accounting.

~~(bb)~~(ff)

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

~~26.~~30. ASAE 3100 *Compliance Engagements*, 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:

40 AASB 2020-2~~ED~~ *Removal of Special Purpose Financial Statements for certain For-Profit Private Sector Entities* March 2020~~30 November 2019~~.

41 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.*

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- 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[42] 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; and
- 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.

~~27.~~31. Since ASAE 3100 is read in conjunction with ASAE 3000, where specific application and other explanatory 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.

~~28.~~32. ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, 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. Refer further to paragraph 143-150.

Preliminary Engagement Activities

~~29.~~33. 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:

[42] 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).

(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 steps are outlined below.

Acceptance and Continuance Procedures

~~30.~~34. 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.

35. 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 seeks permission from the trustees[43] to communicate with the previous auditor.

36. GS 011 *Third Party Access to Audit Working Papers* provides Example Letter E as a template for auditors to request the working papers of a predecessor auditor. There is however, no legislative requirement for successor auditors to provide access to their working papers. ~~Their w~~Working papers remain the~~ir~~ property of the auditor that compiles them and ~~the~~ GS 009 only provides guidance in the case of voluntary co-operation between the predecessor auditor and the current auditor.

~~31.~~37. Where an auditor is unable to obtain sufficient appropriate audit evidence of the fund's opening balances, they may need to limit the scope of the audit and consider varying their opinion on the financial statements – Part A qualification.~~.~~

Ethical Requirements

~~32.~~38. In accordance with ASA 102, ASA 200 and ASAE 3000, the auditor is required to comply with relevant ethical requirements relating to audit engagements. For the purposes of GS 009 this means the Code of Ethics.[44] The fundamental principles of professional ethics comprise:

(a) integrity;

(b) objectivity;

(c) professional competence and due care;

(d) confidentiality; and

(e) professional behaviour.

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[43] See GS 011 *Third Party Access to Audit Working Papers*, paragraph 149.

[44] 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 CA ANZ and is applicable to their members. Members of the Association of Taxation and Management Accountants (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.

The concept of independence is fundamental to compliance with the principles of integrity and objectivity and is mandatory[45] for auditors undertaking the audit of a SMSF.

~~33.~~39. 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.

~~34.~~40. 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 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 and coaching and mentoring by more experienced staff. Under the SISA[46] the auditor is required to comply with competency standards set out by ASIC.[47] 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.

~~35.~~41. 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, Determinations and Interpretative Decisions, is necessary for the auditor to meet this requirement.

Independence

~~36.~~42. 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[48] and the SISR[49] require the auditor to comply with the auditor independence requirements prescribed by the ~~APES 110~~ Code of Ethics ~~for Professional Accountants~~.[50]

~~37.~~43. 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.

~~38.~~44. 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.

~~39.~~45. When assessing independence the auditor:

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[45] See regulation 9A.06 of the SISR.
[46] See subsection 128Q of the SISA.
[47] See ASIC Class Order CO 12/1687.
[48] See subsection 128F (d) of the SISA.
[49] See regulation 9A.06 of the SISR.
[50] In addition, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide* ~~Fourth~~ Fifth Edition, ~~February 2013~~2020.

(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.

~~40.~~46. 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, if the auditor, member of the audit team or their immediate family member is a trustee or member of the SMSF. 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 financial report, 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, this could occur 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.

- 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 pressure 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. This might occur for example, if 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.

~~41.~~47. 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.

~~42.~~48. Safeguards created by the profession, legislation or regulation, generally include the following:

- Educational, training and experience requirements for entry into the profession;

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- 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; or
- Recommendations on independence from relevant regulators.

~~43.~~49. Safeguards within the SMSF may be limited, as many SMSFs are small entities with limited scope for segregation of duties. Hence reliance on internal safeguards may not be possible and the auditor may rely 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.

~~44.~~50. 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.

~~45.~~51. If the firm's staff 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.

~~46.~~52. 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, 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 that accounting services are not performed by a member of the audit team;
- Minimising internal pressures 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; or
- Disclosing to the trustees the firm's involvement in both engagements.

~~47.~~53. Provision of taxation services to a SMSF which is also an audit client would not of itself create a threat to independence that could not be mitigated by safeguards.

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~~48.~~54. 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;
- Minimising internal pressures by ensuring clear guidelines protect the auditor from undue influence by others in the firm; or
- 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.

55. Where the audit firm or an individual partner is unduly reliant on the audit fees from a particular 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.[51] These policies may include contracting of suitably qualified external persons or other firms[52] to review files prepared by the audit firm to confirm appropriate audit opinions are being issued and are supported by sufficient appropriate audit evidence that is appropriately documented.

~~49.~~56. Reciprocal auditing arrangements are potentially a significant threat to independence. Where two auditors conduct the audit of each other's SMSF~~, there are no safeguards to prevent the threat to independence~~. A significant threat to independence can also arise -where two professional accountants who are also SMSF auditors, prepare the accounts for a number of SMSFs and enter into an arrangement to audit each other SMSFs. To reduce this threat safeguards could include ending the reciprocal arrangement or spreading these referrals to a number of different SMSF auditors.~~Reciprocal auditing arrangements are potentially a significant threat to independence. Where two auditors conduct the audit of each other's SMSF, there are no safeguards to prevent the threat to independence. Where two auditorsprofessionals arrange to audit each other's SMSF financial report book without regular rotation, a significant threat to independence is present.~~

~~50.~~57. 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; or
- Removal from the SMSF audit team any personnel with a close relationship with the trustees of the SMSF, including relatives of the trustees; or~~.~~
- Ceasing a reciprocal auditing arrangement whereby two a~~A~~uditors had an (exclusive) arrangement to audit each other's SMSFs; or
- Where you are restricted to completing the accounting work in-house and the SMSF audit function is outsourced, ensuring regular rotation of the ~~external~~ auditor appointment. For example, having a panel of suitable SMSF auditors that have fixed

[51] See ASQM~~C~~ ~~1~~, paragraph 41A(e)~~35~~.
[52] See ASQM~~C~~ 2 *Engagements Subject to an Engagement Quality (EQ) Review*.~~1, paragraph A50~~.

term engagements for specific SMSFs and then are rotated for a fixed term, may provide a safeguard to independence.

~~51.~~58. 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.

~~52.~~59. Appendix 5 of this Guidance Statement provides a number of practical examples of SMSF scenarios and the threats to independence posed by those situations, as well as some appropriate safeguards which may address those threats.

Professional Judgement and Scepticism

~~53.~~60. 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

~~54.~~61. 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;
- 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 that is appropriately documented;

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- 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; or
- Monitoring quality adequately against firm and professional standards, including the Auditing Standards and ASAEs.

Agree the Terms of Engagement

~~55.~~62. 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.

~~56.~~63. 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.[53] 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.

~~57.~~64. 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.
- Sets out the reporting requirements of the auditor, including those imposed by sections 129 and 130 of the SISA; and
- 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.

~~58.~~65. 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;

[53] Requirement under regulation 8.02A of the SISR for appointments after 1 July 2013.

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- A change in trustees;
- A significant change in the nature or size of the SMSF; or
- 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.

~~59.~~66. An example engagement letter is attached as Appendix 1 of this Guidance Statement.

Planning

~~60.~~67. 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; and
- Planning the nature, timing and extent of direction and supervision of engagement team members and review of their work.

~~61.~~68. 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.

~~62.~~69. Adequate planning:

- Ensures appropriate attention to important areas of the audit engagement;
- 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; and
- Assists, where applicable, in the coordination of work performed by other auditors, actuaries and experts.

~~63.~~70. 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 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;

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- 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; and
- The auditor's previous experience, if any, with the SMSF.

~~64.~~71. An annual 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

~~65.~~72. 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.

~~66.~~73. The complexity of the audit strategy will vary with the size, nature and complexity of the SMSF.[54] 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.

~~67.~~74. 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.

~~68.~~75. In gaining this preliminary understanding of the SMSF, the auditor reviews the fund's current 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 comply with or have a mechanism to comply with the SISA and SISR and changes thereto; and

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

~~69.~~76. The covenants in subsection 52B(2) 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 3 Self-Managed Superannuation Fund Governing Rules Preliminary Understanding Checklist.

~~70.~~77. 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.

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

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The Audit Plan

~~71.~~78. The audit plan documents the detailed implementation of the overall audit strategy. 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.

~~72.~~79. 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 are documented accordingly.

~~73.~~80. Often, the audit plan for a SMSF takes the form of a template which can be used to assist in maintaining quality control for the engagement as required by ASA 220. Standardised 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.

~~74.~~81. The audit plan encompasses financial audit procedures, such as the illustrative financial audit procedures listed in Appendix 4 of this Guidance Statement, as well as compliance procedures.[55]

Risk Assessment Procedures

~~75.~~82. 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.

~~76.~~83. Under ASA 315, the auditor is required to examine the internal controls of the SMSF. 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 possible that there may be limited reliable internal controls on which the auditor may rely. Even if the auditor considers that a fully substantive audit approach is appropriate, the auditor is still expected, under ASA 230, to document their consideration of the internal control environment.

~~77.~~84. Under ASA 250, the auditor is required to consider whether the SMSF has breached the SISA or SISR previously and whether there are 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.

85. SMSFs are often small entities, with a close and related membership where all trustees or directors of the corporate trustee may be equally responsible for managing the fund and making decisions. There may be little or no opportunity for implementing segregation of duties 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 the level of substantive testing. As a result, the auditor would design and perform further audit procedures which are

[55] 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 SMSF audit tool (eSAT), for use in conducting the compliance engagement.

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entirely substantive procedures. If the administration of the SMSF is outsourced, the auditor evaluates the controls prevailing at the administrator.

Use of Technology

86. Initial risk assessment and audit planning includes determining the method of data collection used by the party preparing the financial report for the SMSF. It is more common to see the use of technology for data management and transfer and this can influence the risk assessment undertaken by the SMSF auditor.

87. Traditionally, the primary source document for SMSF account preparation was the bank statement and individual transactions were manually loaded into accounting software (including excel) for the report preparation. Inherent risks in this approach included the risk~~s~~ of compromised bank statements and therefore the auditor would normally obtain direct confirmation from the bank in the audit planning phase. Today it is more common for cash transaction data to be sourced via data feeds which is the transmission of information between the financial institution directly into the software of the report preparer. Data feeds are also being used to obtain information from share brokers, WRAP accounts, and term deposit providers.

88. Where the data feeds are utilised via a "direct-connect" process – end to end encrypted link over a point to point connection – the ability to intercept or manipulate the data is removed as the information comes directly from a financial institution into the software of the party preparing the annual compliance report. If an ASAE 3402 Type 2 report has been obtained, this process of data transfer does not represent any additional risks to the SMSF audit process. It however does not change the need for the audit planning to encompass an assessment of the inherent risks associated with the transactional data being held by a service organisation provider such as an IDPS operator.

Where data feeds are prepared via an aggregator - "scrapped data feeds" - there is no guarantee of data integrity. Under this process, the original data is sent via an email and, even if encrypted, there is the potential for transcription errors. There is also no guarantee of the integrity of the email or that it has not been intercepted. ~~.~~

89. Errors encountered during the "scrapping" process require manual intervention to correct and therefore reduces the integrity of the final data.

90. Additional testing may be required for the audit of a SMSF that utilises this data transfer process for the preparation of the annual compliance report and is normally undertaken in the audit planning phase.

Extra consideration may be necessary where the party preparing the financial report utilises manual file imports from financial institutions and the integrity of the information cannot be relied on.

~~78.~~91.

Materiality

~~79.~~92. ASA 320 requires the auditor to consider performance materiality[56] 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

[56] 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. Performance materiality may also refer to the amount or amounts set by the auditor for particular classes of transactions, account balances or disclosures.

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.

~~80.~~93. The auditor's preliminary assessment of materiality is based on qualitative and quantitative factors. Similarly, 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).

~~81.~~94. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within both Part A (paragraphs 174 to 177) and Part B (paragraphs 324 to 325) respectively of this Guidance Statement.

Audit Evidence

~~82.~~95. 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.

~~83.~~96. ASA 500 and ASAE 3100 require the auditor in the conduct of the financial audit and compliance engagement to obtain sufficient appropriate audit evidence with 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 degree of difficulty or expense involved is not in itself a valid basis for omitting an evidence gathering procedure for which there is no alternative. The auditor uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, in supporting the audit opinion.

97. 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 may include:

- ~~s~~ F~~f~~inancial reports of investment entities such as closely held unlisted trusts or private companies;
- Limited recourse borrowing arrangement substantiation – loan contract, holding trust deed, extracts of bank statement showing transactions related to the arrangement (e.g. payment of the initial deposit and subsequent loan repayments);
- Where real property is held by the SMSF, a copy of the title conveyance documentation on purchase by the SMSF - which can also be used to identify related party transactions and, whether the transaction was conducted on commercial terms, for subsequent audits, evidence showing the property is held by the fund and is unencumbered. Documentation to evidence the asset is recorded at market value; a copy of the lease agreement, and, in the case of residential property, evidence the tenant is not a 'related party'; substantiation of the expenses related to the holding of the property by the SMSF; sufficient evidence of the rental receipts, which could include a summary produced by a managing real estate agent that can be mapped back to the cash transactions in the fund bank statements; and general adherence to the terms of the lease agreement;
- Copies of advice received by the trustee where it is relevant to the SMSF's financial position;~~,~~

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- Asset substantiation which may include, holding statements, certificate of title, bank statements, Annual Tax Statement issued by a WRAP provider;
- Income and expense substantiation including the sampling methodology used (if not a 100% sample size);
- Bank statements – ~~at least the~~ opening and closing statements as well as any other statements to evidence transactions that are unusual due to size, and/or their nature, include the purchase or sale of assets, the receipt or payment of material transactions, or other transactions that may not have been substantiated elsewhere;
- T~~t~~rustees~~'~~ minutes and/or resolutions, ~~investment holding certificates, contracts of sale, bank statements~~, ~~invoices, receipts, titles, legal advice and correspondence,~~ the t~~T~~rustee r~~R~~epresentation l~~L~~etter, the fund's Investment Strategy and any other relevant correspondence;

~~84.~~ ~~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. Audit evidence may be held in paper and electronic form and must be able to be provided~~oduced~~ efficiently and ~~be~~ comprehensively ~~enough~~ to provide the details of the conduct of the audit and how the auditor formed their opinion. ~~.~~

~~85.~~98. Audit evidence is generally more reliable when:

- Obtained from an independent source;
- Obtained directly by the auditor;
- In documentary form;
- It comprises original documents; or
- Received directly by the auditor, rather than passed through other parties, especially considering the limited segregation of duties and internal controls that is often found in a SMSF.

99. 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.

100. Obtaining a *Bank Confirmation* is an effective method to obtain assurance about the existence, title and value of the cash holdings, as well as to determine whether the SMSF cash assets are subject to any form of lien or encumbrance. GS 016 *Bank Confirmation Requests* provides guidance to auditors on the enquiry and confi~~o~~rmation methods for obtaining audit evidence regarding bank accounts and transactions.

101. -A bank confirmation certificate will not however provide sufficient appropriate audit evidence of the transactions that occurred during the income year under audit. The audit file should also contain a copy of the bank reconciliation, the analytical review of the cash balances along with evidence of the various transaction testing undertaken.

102. As an alternate method of obtaining independent information regarding the cash transactions, the a~~A~~uditor may request the SMSF Trustee to request the financial institution to provide

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copies of the bank statements at the same time as they are issued to the trustee. This can be done through the SMSF's internet banking whereby the auditor has a personalised log-in that allows access to the SMSF bank accounts only.

103. If the SMSF only obtains paper statements, the Trustee may request the bank to issue duplicates to the auditor however, this may create a records management issue over time.

Data-feeds and audit evidence

104. The use of data feeds for information transfer presents additional audit considerations regarding the appropriateness of the audit evidence used as the basis for the auditor's opinion.

"Direct-connect" transmission – end to end encrypted link over a point to point connection – is the most secure data feed~~s~~ process as the ability to intercept or manipulate the data is removed. There is however some likelihood that the auditor may encounter processing errors. It is important therefore that the auditor understand the control environment that is supporting the data feed~~s~~ process. The auditor would normally request a "Type 2" Audit Report to provide evidence of the effectiveness of the control environment to prevent material misstatement of the financial report. If no report exists, the auditor may need to consider additional testing to determine the reliability of the information provided.

105. Where data feeds are prepared via an aggregator - "scrapped data feeds" - there is no guarantee of data integrity.. The auditor considers conducting their own testing of the information collected via this form of data feed to ensure that sufficient appropriate audit evidence is included in the audit file.

Consideration may be necessary where the party preparing the financial report utilises manual file imports from financial institutions and the integrity of the information cannot be relied on by the auditor.

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~~86.~~106. 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 ~~7~~82 to 8~~2~~6 above.

~~87.~~107. 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; or
- Analytical review.

~~88.~~108. 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 ordinarily relies 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 audit procedures do not provide sufficient appropriate audit evidence.

Inspection of Records or Documents

~~89.~~109. 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.

~~90.~~110. 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 is 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

~~91.~~111. 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

~~92.~~112. 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

~~93.~~113. 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.

~~94.~~114. 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.

~~95.~~115. 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.

~~96.~~116. The auditor obtains written representations from the trustees to confirm responses to oral enquiries on material matters when other sufficient appropriate audit evidence cannot

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reasonably be expected to exist or when the other audit evidence obtained is of a lower quality.[57]

Confirmation

~~97.~~117. 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 bank account and investment account balances and their components.[58]

Recalculation

~~98.~~118. Recalculation consists of checking the mathematical accuracy of documents, records or account balances. Recalculation may be performed electronically, for example through the use of data analytics 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.

Re-performance

~~99.~~119. Re-performance is the auditor's independent execution of procedures and controls that were originally performed as part of the SMSF's operations, for example re-performing the calculation of market movement for a range of listed securities. Re-performance may be conducted either manually or through the use of data analytics.

Analytical Procedures

~~100.~~120. Under ASA 520, the auditor is required to apply analytical procedures as risk assessment procedures in understanding the SMSF and its environment and in the overall review at the end of the audit.

~~101.~~121. Analytical 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.

~~102.~~122. Ordinarily, an auditor considers 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

~~103.~~123. 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, ASAEs and applicable legal and regulatory requirements.

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57 See ASA 580 for further requirements and explanatory guidance on written representations.
58 See ASA 505 for further requirements and explanatory guidance on confirmations.

~~104.~~124. 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 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.

~~105.~~125. 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 ASAEs and applicable legal and regulatory requirements;

(b) the results of the audit procedures and the audit evidence obtained; and

(c) significant matters arising during the audit and the conclusions reached thereon.

~~106.~~126. The form, content and extent of audit documentation depend on factors such as:

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

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

Nature of Documentation

~~107.~~127. 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 are not considered to be appropriate audit evidence.

~~108.~~128. Oral explanations 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[59] after the date the audit report is signed.

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

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~~109.~~129. 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.

~~110.~~130. 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.

~~111.~~131. 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

~~112.~~132. 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[60] 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.

~~113.~~133. Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:

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

~~114.~~134. 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

~~115.~~135. 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. The *Trustee Representation Letter* is ordinarily obtained as primary audit evidence prior to the audit report being issued. Appendix 2 provides an example *Trustee Representation Letter*.

~~116.~~ In instances where the auditor's contact with the trustees is limited, and may only be at the conclusion of the engagement, in the interests of having a more efficient audit approach the

60 See ASIC Class Order 12/1687, paragraph 48.

auditor may consider obtaining certain confirmations from the trustees at the planning stage of the engagement, for example, eligibility of trustees, safe-guarding of assets and fraud.

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~~118.~~137. With respect to the financial audit of a SMSF, under ASA 580, the auditor obtains written representations from the trustees, including that they:

- Acknowledge responsibility for the selection of the applicable financial reporting framework and 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; and
- Believe the effect of uncorrected misstatements aggregated by the auditor is immaterial, both individually and in aggregate, to the financial report.

~~119.~~138. 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; and
- Have conducted the affairs of the SMSF in compliance with the SISA, SISR and other relevant legislation throughout the period.

~~120.~~139. 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.

~~121.~~140. 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.

~~122.~~141. 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

~~123.~~142. 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;
- Investment administration, including fund accounting and/or fund administration;
- Registry; and
- Valuation services.

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These investment management services may take various forms including WRAP[61] 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*.

143. The use of ~~-~~a service organisation may provide the opportunity to reduce substantive testing for balances and transactions maintained by the service organisation. ASA 402 provides some relief stating that in the absence of obtaining a direct understanding of the internal control environment of a service entity, the auditor should obtain a 'Type 1' or 'Type 2' Audit Report. ASAE 3402 provides detailed requirements and guidance on the preparation of these ~~-~~audit reports.

Type 1 or Type 2 report

144. A Type 1 Report provides an opinion of effectiveness of the service organisation's internal control environment as described by the service entity's management and cannot be relied on to reduce the level of substantive audit testing conducted by the SMSF auditor. The value of a Type 1 report is limited to planning the audit, assessing the risk of material misstatement, and designing further audit procedures.

145. A Type 2 Report includes the service auditor's opinion on the management's description of the control environment after tests of the controls are undertaken and, therefore, may be able to be used to reduce the level of substantive testing undertaken by the SMSF auditor.

~~Any report~~The extent of the reliance able to be placed on a service auditor's report provided in conjunction with ~~support of~~ a service entity's Annual Investor Statement (Tax Report) is determined after a review of ~~-needs to be reviewed to determine if it covers all~~ the assertions made relevant to ~~investment assets~~information ~~-~~contained in the report. For example, does the audit report limit the scope of the service auditor? Some reports only cover existence ~~,~~rights and obligations, which would require the fund auditor to test for valuation. In these instances, the auditor may partially rely on the service auditor's report and would consider conducting testing to obtain assurance on the valuations contained in the Tax Report.

146. Where the fund uses a custodian but the custodian does not engage ~~their~~ an independent auditor to issue a ASAE 3402~~GS 007~~ report on the investments, the fund auditor may not ~~not~~ limit the scope of their audit. Additional procedures may be required for investment, income, expenses and tax information included in the custodian's report.

147. A Type 2 Report can be relied on to the extent the SMSF auditor can map the tests of controls against the assertions in the service provider's audit report. SMSF auditors ensure that any report issued is in compliance with ASAE 3402 requirements otherwise further procedures and evidence may be required. Greater consideration may be necessary if the service provider operates overseas.

148. 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.

149. 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

[61] 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.

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.

~~124. 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.~~

~~Nevertheless,~~

~~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, CO 13/762 or CO 13/763, 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. 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.~~

~~125.~~150. Operators of IDPSs[62] and IDPS-like services are required by CO 13/762[63] or CO 13/763[64] 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 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.

151. ASIC's Regulatory Guide RG 148 *Platforms that are managed investment schemes and nominee and custody services* details the requirements of CO 13/762 and CO 13/763:~~.~~

(a) RG 148 stipulates the requirement for IDPS operators to "maintain, document and comply with adequate internal control procedures to ensure compliance with financial

[62] "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.

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

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

services laws” and to have the procedures audited annually by a registered company auditor.

(b) RG 148.126 to 148.133 details the requirement to provide an annual investor statement and audit report within 3 months of the end of the financial year. The audit report must set out whether the auditor has reason to believe that the investment statements have been given without material misstatement and their opinion on whether the annual investor’s statements have been properly reconciled.

Assets held under custody are held as a single holding in the name of the Custodian. Individual investors hold a specified number of units which determine the value of the individual holding. An annual independent audit of the IDPS is required to provide assurance on the reconciliation of ~~-~~the attribution to individual investors. The planning of a~~An~~ SMSF audit considers the independent audit of the Custodian as, r

~~R~~eports 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.~~

Using the Work of a Service Auditor

~~126.~~152. 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.

~~127.~~153. 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.

~~128.~~154. With respect to the appropriateness of the service auditor’s work, the auditor considers whether:

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

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

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

155. In general, it is likely to be cost prohibitive for a SMSF auditor to obtain direct assurance of an IDPS control environment and therefore reliance on the CO 13/763 Audit Report and applying professional judgment, to determine an appropriate risk rating for the SMSF audit. The risk rating for the audit determines the level of testing required for individual financial statement entries such as; contributions, payments to members, investment purchases and sales as well as the size of the sample for testing asset valuation, particularly the larger positions reported on the Investor Annual Report.

Where the SMSF auditor is unable to obtain sufficient appropriate audit evidence as all records are held at the service organisation, they ordinarily consider whether it appropriate to disclaim an opinion, or even express a qualified opinion if the possible effects are material or pervasive.

~~129.~~156.

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Using the Work of an Expert

~~130.~~157. 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 *Evaluating the Appropriateness of a Management's Expert's Work* ~~*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) (GS 005).

~~131.~~158. 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.

Evaluating the Appropriateness of a ~~Using the Work of a~~ Management's Expert's Work

~~132.~~159. Actuaries and valuers are experts generally appointed by the trustees (a management's expert) to provide market valuations, 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 evaluating the appropriateness of~~using~~ ~~the~~ management's expert's work as audit evidence.

160. The trustees are required to obtain annually, an actuarial certificate for funds with members in both pension and accumulation phases, where the assets are un-segregated, covering the proportion of income which is tax exempt.[65] Actuarial certificates will also be required if the fund pays a pension that is not prescribed under the SISR. Actuarial certificates are not required for accumulation funds paying pensions with segregated assets if the assets are segregated for the entire year of income and the SMSF pays either; an allocated, market-linked or, account based pension. A SMSF using the segregated method will need an actuarial certificate to claim ECPI if it paid any other type of pension.

161. Since 1 July 2017, SMSFs that are classified as having *disregarded small fund assets*[66], are required to use the proportionate method for exempt pension income calculation, regardless of if the fund is 100% in the retirement phase.

(a) A SMSF has disregarded small fund assets if at least one fund member has a retirement phase income stream and:

(i) —a fund member has a total super balance of at least $1.6m; or

(ii) —that member is receiving a retirement phase income stream from any source.

[65] See Section 295-390 of the ITAA 1997.
[66] Section 295-387 ITAA 1997

162. A SMSF can have 'disregarded small assets' even if no members have pensions of $1.6m or above in the SMSF. The only condition that must be present in the SMSF is there is at~~s~~ least one member in the retirement phase. The remaining conditions can exist outside of the SMSF.

Under this interpretation, a SMSF that is 100% in pension phase will be required to obtain an Actuarial Certificate[67] that states the ECPI percentage is 100%.

~~133.~~163. 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 are relevant to~~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 actuary's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;

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

~~134.~~164. Actuarial reports are a means of assessing 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.

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[67] The 2020 Federal Budget included a measure that would remove the requirement for a SMSF that is 100% in the retirement phase to obtain an actuarial certificate from 1 July 2020. The announced measure has not be legislated as at the time of writing.

PART A – FINANCIAL AUDIT

~~135.~~165. 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.

166. 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. ASA 210 *Agreeing the Terms of Audit Engagements* at paragraph 6 details the requirement for the auditor to determine whether the reporting framework is acceptable as well as to obtain trustee acknowledgement of their understanding and responsibility for the financial report in its entirety.

Where a ~~As~~ SMSF~~s generally~~ prepares 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.[68]

Financial Reports

~~136.~~167. An accumulation fund, or defined contribution fund, is a fund which is not a defined benefits fund.[69] 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.

~~137.~~168. The requirements for financial reports for a SMSF are set out in the SISA and SISR. In summary, for an accumulation fund they comprise:

(i) a statement of financial position; and

(ii) an operating statement.

~~138.~~169. Funds where the benefits are wholly determined by reference to life assurance policies, prepare significantly different financial reports to other SMSFs. Guidance on these reports is provided in the SISR.[70] This Guidance Statement does not deal with the audit of these funds.

~~139.~~170. Typical account categories in an SMSF's financial report include:

- Assets:
  - Cash and cash equivalents;
  - Investments;
  - Receivables; and
  - Prepayments.

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[68] If a SMSF is a reporting entity OR the trust deed - establishing the fund, or amended, from 1 July 2020, requires the financial statements to be prepared in accordance with the AAS, the SMSF is required to prepare~~s~~ general purpose financial reports and adhere~~s~~ to the Australian Accounting Standards in the preparation of that report.

[69] Definition from regulation 1.03(1) of the SISR.

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

- Liabilities:
  - Tax liabilities (current and deferred);
  - Accounts payable and accruals;
  - Borrowings, including limited recourse borrowing arrangements;
  - Accrued benefits; and
  - Vested benefits (disclosed in the notes to the financial statements).
- Reserves
- Revenue:
  - Investment revenue, including changes in net market values;
  - Proceeds from insurance policies; and
  - Contributions and transfers in.
- Expenses:
  - General administration expenses;
  - Tax expenses; and
  - Benefits paid.

Guidance on auditing each of these balances and transactions is provided in paragraphs 151 to 236, and illustrative financial audit procedures are also provided in Appendix 4 of this Guidance Statement.

Assertions and Audit Evidence

~~140.~~171. In representing that the financial report gives a fair presentation of the SMSF's financial position and performance 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 including related disclosures.

~~141.~~172. 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.~~173. Assertions used by the auditor fall into the following categories:

(a) Assertions about classes of transactions and events reflected in the SMSF's operating statement for the period under audit:

(i) Occurrence - transactions and events that have been recorded have occurred and pertain to the SMSF;

(ii) Completeness - 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; and

(v) Classification - transactions and events have been recorded in the proper accounts.

(b) Assertions about SMSF account balances reflected in the SMSF's statement of financial position at the period end:

(i) Existence - assets, liabilities, and 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 - assets, liabilities and member entitlements that should have been recorded have been recorded; and

(iv) Accuracy, v~~V~~aluation 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 SMSF's 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 - 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; and

(iv) Accuracy, ~~and~~ valuation and allocation - financial and other information ~~is disclosed fairly and at appropriate amounts.~~have been appropriately measured and described.

Materiality

~~143.~~174. 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. In addition to considering qualitative factors, a quantitative materiality level is calculated by applying a percentage, based on the auditor's professional judgement, to the appropriate benchmark or benchmarks, which may include:

- Total gross assets;
- Net assets'
- Total member entitlements;
- Total gross income; and
- Total expenses.

~~144.~~175. 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.~~176. 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; and
- The effect of misstatement on the financial report as a whole.

~~146.~~177. 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.~~178. 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.~~179. 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.

180. Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the relevant ethical requirements which includes client consent. It is common practice for a~~Initially, the~~ successor auditor to issue~~s~~ a letter to the predecessor auditor to understand whether there may be threats to compliance with ethical requirements.

181. GS 011 *Third Party Access to Audit Working Papers* provides Example Letter E as a template for auditors to request the working papers of a predecessor auditor. GS 011 provides guidance in the case of voluntary co-operation. There is no legislative requirement for successor auditors to provide access to their working papers. Their working papers remain their property.

182. Ordinarily, some audit evidence for opening balances may be obtained as part of the current period's audit procedures on current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other 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.

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When the auditor cannot obtain this information, the auditor may need to carry out additional audit procedures relating to the opening balances.

~~149.~~183. 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 do not contain material misstatements, are correctly brought forward and that the accounting policies have been consistently applied in the current period.

~~150.~~1. ~~Ordinarily, some audit evidence for opening balances may be obtained as part of the current period's audit procedures on current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other 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 relating to the opening balances.~~

~~151.~~184. 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 302~~4~~ to 306~~17~~.

Cash and Cash Equivalents

~~152.~~185. 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.

~~153.~~186. The audit assertions for auditing a SMSF's cash and cash equivalents are:

- Existence – obtaining evidence that the cash exists and is correctly classified;
- 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; and
- Valuation and allocation – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.

~~154.~~187. 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 assesses the internal controls surrounding the authorisation of payments and receipts to ascertain whether the cash of the SMSF 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 parties that may have access to a fund's bank accounts.

~~155.~~188. If the banking operations are significant to the audit, the auditor sends bank audit confirmation requests[71] to the SMSF's banks. A bank audit confirmation is a request to a bank

[71] For an example of a Bank Audit Confirmation, refer to GS 016.

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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.

~~156.~~189. 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.

Investments

~~157.~~190. 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, Pooled Superannuation Trusts (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; and
- Collectables and personal use assets[72] such as artwork, antiques, wine and recreational boats.

~~158.~~191. Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.

~~159.~~192. 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;
- Completeness – obtaining evidence that investments owned by the SMSF are recorded in the accounts; and

[72] Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

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- 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.

~~160.~~193. 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; and
- Investments not beneficially owned by the SMSF.

~~161.~~194. 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

~~162.~~195. In auditing the existence of 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

~~163.~~196. The auditor confirms that material investments of the SMSF have been recorded at the correct amounts and in the correct period. The auditor reviews supporting documentation to confirm 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 confirm that material 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

~~164.~~197. 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[73] 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 does not result in misleading information and that the method adopted has been applied consistently.

~~165.~~198. When preparing year end accounts, SMSF assets are required to be valued at market value.[74] Market value is defined in the SISA[75] and the ATO's guidance on the process to

[73] See Regulation 8.02B of the SISR.
[74] See Regulation 8.02B of the SISR.
[75] See Subsection 10(1) of the SISA.

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establish a market value is contained in its Valuation guidelines for self-managed superannuation funds.

~~166.~~199. 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 trustees' rationale for determining the market value of each asset class.

~~167.~~200. 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 and document whether the basis of establishing market value is reasonable and the valuation is reasonable in light of the SISA, SISR, and ATO guidelines. The working papers normally include the audit evidence for the testing of the fund's investments and record how the auditor reached their conclusions regarding any particular asset.

The auditor assesses the risks of material misstatement of the asset values, designs and performs audit procedures and documents conclusions in response to the assessed risks.

201. A m~~M~~aterial misstatement of the SMSF's financial report results in the member's interests being misstated which has implications for the calculation of a number of important thresholds:

(a) the member's total superannuation balance (TSB) which is the key metric for eligibility for a range of superannuation planning opportunities;

(b) the valuation of retirement phase pensions and their recording in the member's Transfer balance account (TBA). Every individual has a personal transfer balance cap (TBC) which limits the amount of capital that can be utilised for retirement phase income streams. The TBA is used to manage the individual's TBC and is measured based on the market value of transactions that occur as debit and credits within the account;

(c) the value of a member's death benefit. Material misstatement in the financial statements of a SMSF when a member dies can lead to a delay in the payment of the proceeds.

~~168.~~202. 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.

203. 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.

Investment in unlisted companies or trusts may need some further consideration ~~require particular review~~ by the auditor in order to gain assurance the valuation is appropriate. Difficulties may arise when the company or trust report on an 'at cost basis'. Applying professional judgement, the auditor assesses the likelihood of material misstatement of the SMSF accounts if the investment is not subject to a valuation process.

204. Matters to be considered may include the following:

(a) length of time the SMSF has held the investment;

(b) evidence provided at the initial purchase and any subsequent additional investment by the SMSF regarding the valuation methodology;

(c) any third party sales or purchases of the investment during the SMSF's holding period. This will require the SMSF trustee to liaise with the company CEO or the trustee of the trust to obtain supporting evidence of the methodology for striking the sales or purchase price. This request may be refused based on commercial sensitivities.

(d) whether it is reasonable for the SMSF trustee to undertake a valuation of a fund asset. That is, they possess the requisite knowledge or expertise to undertake the valuation or, a low level of complexity is inherent due to the volume of publicly available market information to facilitate an informed valuation.

For example; if a SMSF asset comprises a strata title residential property in a major capital city where reasonable stock turnover occurs, the trustee may be able to use auction and other sales data to determine an appropriate valuation for the fund property. Alternatively, if a property is unusual and not subject to comparable sales, it may be the trustee does not have the competency to undertake the valuation of the asset.

205. Where the SMSF has invested in a related trust or company, a review of the valuation methodology may reveal the instance of non-arm's length income (NALI) which requires a re-assessment of the calculation of the fund's tax position.

~~169.~~

~~170.~~206. 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 ACR where there is a contravention or potential contravention of regulation 8.02B of the SISR. The SMSF Annual Return will report the Part A Audit qualification.

~~171.~~207. 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 adequate and current.

~~172.~~208. 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

209. IDPS[76] operators provide investors with an annual tax statement to provide consolidated information about their investment portfolio as well as to assist them with the completion of

[76] See paragraph 142 of this Guidance Statement for a description of IDPS reports.

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their tax obligations. The extent to which a SMSF auditor can rely on the third party information is as follows:

(a) Where t~~T~~he Annual Investor Statement is accompanied by an Audit Report issued in accordance with ASAE 3402 and GS 007 ("type 2 report") and the audit report provides audit evidence on the operating effectiveness over controls at the service organisation.

210. ASA 402 deals with the auditor's responsibility to obtain sufficient appropriate audit evidence when the user entity uses a service organisation. The Standard expands on how the auditor applies ASA 315 and 330 in obtaining an understanding of the user entity, including internal controls relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks. A type 2 report may be used as evidence that controls at the service organisation are operating effectively if the results described in the service auditor's report are relevant to assertions that are significant in the SMSF's financial report.

~~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[77] or a service organisation's report under 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.~~

~~However, 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 procedures on 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; and~~
- ~~Confirmation of balances or transactions recorded on behalf of the SMSF from the service organisation.~~

~~173.~~211. The nature of the audit procedures required to obtain sufficient appropriate audit evidence regarding a SMSF's investments which are managed by, or under a custodial arrangement ~~in the custody~~ of an IDPS or another service organisation, ~~will~~ are a matter for the auditor's professional judgement in accordance with the assessed inherent risks in the fund. ~~depend on the extent to which the records of the SMSF are maintained by the IDPS or service organisation.~~

212. ~~By comparison, for~~I ~~i~~nvestments held by an IDPS operator under the investor's HIN (holder identification number) rather than under a custodial arrangement, are able to be verified directly by the auditor regardless of the location of the records. If the investor report is a primary document for the preparation of the SMSF's financial statements, the risk assessment by the auditor may depend on whether a type 2 audit report has been provided and what level of assurance has been provided by the service auditor.

~~in listed securities, units or products for which prices are readily or publicly available, such as managed funds, PSTs and listed property trusts, registered in the name of the trustee on behalf~~

[77] ~~See paragraph 123 of this Guidance Statement for a description of IDPS reports.~~

~~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. Valuations may be tested against published unit prices using the number of units held.~~

~~174.~~213. 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 on procedures on the SMSF's investment activity.

214. For a standalone investment mandate where the IDPS or service organisation maintains the SMSF's accounting records, including source documentation, ~~makes~~ implements investment decisions based on the mandate and holds the investments on behalf of the SMSF under a custodial arrangement, 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.

215. Audit evidence in these circumstances may include a service auditor's report on the operating effectiveness of the controls at the IDPS or service organisation (a Type 2 Report), ~~and~~analytical testing, substantive testing of balances and transactions held 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.

~~175.~~216. Testing ~~at the SMSF may include~~at the transaction level may include: valuation using independent sources, confirmation of contributions with employers, verification of benefit payments against members' records~~, if available~~ e.g. personal bank statements, ~~and~~ verification of dividend and trust distributions against ~~independent~~ published information ~~sources.~~ and, by obtaining copies of correspondence including advice provided to the SMSF regarding portfolio positions. The SMSFs asset register can provide another source of information that may increase the auditor's judgement on how much reliance they will place on the Type 2 Report to provide sufficient audit evidence.

217. If the auditor is not relying on the Type 2 Audit Report to limit the level of testing undertaken at a transaction level and it ~~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 either 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.

~~176.~~218. In the case of a modified audit opinion, the methodology and the details of how the auditor reached their conclusion form a part of the audit working papers.

Receivables and Prepayments

~~177.~~219. Where the SMSF accounts on an accruals basis, receivables may include 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.

~~178.~~220. 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.

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

Unpaid present entitlements (UPE) from related trusts risk being caught as a contravention of; the in-house asset rules (IHA) in -Part 8; the arm's length rules at s.109 and; the sole purpose test (SPT) at s.62 SISA 1993, if not promptly paid. See SMSFR 2009/3 for details of the ATO's view on UPE's between SMSF and related trusts.

~~179.~~222. In reviewing UPE's, the auditor considers whether there is genuine likelihood of the capital being paid within proximity of the declaration of the distribution or whether the fund and trust have entered into a loan agreement (explicit or implicit).

Liabilities

~~180.~~223. Liabilities of a SMSF, other than accrued benefits which are discussed separately, may include:

- 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; and
- Bank overdrafts, other borrowings and related interest payable.

~~181.~~224. 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 – liabilities of the SMSF have been recorded; and
- Valuation and allocation – liabilities are recorded at appropriate amounts and allocated to the appropriate account.

~~182.~~225. Generally, SMSFs are not permitted to borrow. Permitted exceptions are temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions surcharge,[78] settlement of securities transactions where the borrowing was unforeseen or borrowings under limited recourse borrowing arrangements. Sections 67, 67A and 67B of the SISA detail the additional requirements that are required to be met before the limited recourse borrowing is accepted.

~~183.~~226. Audit risks to be considered in relation to auditing liabilities may include but are not limited to:

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

Draft

[78] 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.

- Loan documents in respect of a limited recourse borrowing arrangement (LRBA) do not specify the loan to be limited in recourse.

~~184.~~227. 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.

Accrued Benefits

~~185.~~228. The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.

~~186.~~229. Accrued benefits of a SMSF may arise from:

- Accumulation entitlements where the member bears the investment risk;
- Pension accounts due to members; and
- Insurance claims paid or payable to the SMSF owing to members.

~~187.~~230. 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 – accrued benefits of each member of the SMSF have been recorded; and
- Valuation and allocation – accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.

~~188.~~231. 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; and
- Member balances not being carried forward correctly from one period to another.

Vested Benefits

~~189.~~232. 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[79] and accessing a TRIS. Usually vested benefits are disclosed in the notes to the financial statements.

Draft

[79] Preservation age is the age at which super benefits may be able to 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.

~~190.~~233. 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. 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.[80]

~~191.~~234. 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 for inclusion in members' accounts. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefits are not being reduced.

Reserves

~~192.~~ 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.~~Prior to 1 July 2017, a wide range of reserves were used by some SMSFs as follows:

235.

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

- Investment smoothing;
- ~~Contribution~~Anti-detriment;
- Insurance; and~~,~~
- ~~Miscellaneous.~~General

236. Investment smoothing reserves are~~are~~ used to maintain a consistent rate of return for the fund and are widely used by APRA funds however, their use in a SMSF is not likely to be valid given the limited membership size available. SMSFs with historical investment reserves are encouraged to develop a plan to unwind these reserves overtime and audits checks include identifying if the reserve has been added to since 1 July 2017.

237. Prior to 1 July 2019, anti-detriment payment reserves were utilised in order to fund 'tax saving amount(s)' in accordance with s 295-485 ITAA 1997. These reserves were established to pay an additional benefit upon death, equivalent to the tax already paid on contributions, for the member. The reserves were funded from excess investment returns; by a contract for insurance over the life of a fund member; or allocated from miscellaneous reserves. SMSFs were able to pay a tax savings amount to a deceased's member's spouse or child up to 30 June 2019 provided the member died prior to 1 July 2017.

Audit procedures for a SMSF with an anti-detriment reserve may include ensuring the trustee has documented the strategy in respect of the capital and, where the reserve is being unwound, the treatment of allocations from the reserve to member balances.

238. Funding of reserves via the use of a contract for insurance was prohibited from 1 July 2014 however, if the policy was commenced prior to the change, the SMSF can continue to

80 See regulation 5.08 of the SISR.

Draft

maintain it. Audit procedures may include testing insurance contracts against the requirements of regulation 4.07D SISR 1994.

~~193.~~

~~194. Contribution reserves allow funds to manage potential excess contributions where a contribution is received in the month of June.~~

239. ~~Miscellaneous~~ General reserves ~~can be~~are created in a SMSF by the death of ~~the last~~a defined benefit pensioner ~~within the SMSF with the~~ as any residual capital remaining from the pension ~~residual sums being transferred~~defaults to ~~to~~ a ~~miscellaneous~~ reserve as the capital is not a member allocated balance.

~~They can also be created intentionally for other purposes.~~

240. Contribution reserves are not considered to be a reserve and are referred to as an 'unallocated contribution suspense account. The use of this account allow funds to manage potential excess contributions where a contribution is received in the month of June. Contributions received are required by the SISR to be allocated to members within 28 days of the end of the month in which they are received.[81] 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"[82] 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.

The trustee is required to report an unallocated contribution to the ATO via a specified form[83] otherwise, the member will be assessed under the excess contribution rules.

~~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 refer to the relevant sections of the ITAA 1997. The reserve may be funded from excess investment returns or allocated from miscellaneous reserves~~procedures??~~may and needs to be established prior to death.procedures~~

241. The ATO has issued SMSFRB 2018/1 to provide its interpretation of the validity of reserves for SMSFs and its concerns that reserves may be used to circumvent the various caps and limitations that apply to superannuation and income tax from 1 July 2017.

~~The ATO Bulletin states that :~~

~~195.~~242. ~~wao~~Audit considerations for reserves include whether:

- The fund's governing rules permit the maintenance of reserves;
- The fund has a reserve strategy.[84]

[81] See Regulation 7.08 of the SISR.
[82] See TD 2013/22 applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.
[83] See ATO NAT 74851 – Request to adjust concessional contributions.
[84] See section 52B(2)(g) of the SISA.

Draft

- 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. An allocation from a reserve (apart from a pension reserve) is treated as a concessional contribution, unless the allocation is 'fair and reasonable' across the membership and the amount allocated represents less than 5% of the member's balance. Pension reserve transfers are in accordance with the annual Actuarial Certificate.
- ~~; and~~Where a SMSF has reserves that were established prior to 1 July 2017 (or 2014 for insurance), the fund is permitted to maintain the reserve however, unexplained increases in the balance of fund reserves and the creation of new reserves are subject to greater scrutiny.

~~The fund has a reserve strategy.~~[85]

Investment and Other Revenue

~~196.~~243. Revenue of a SMSF, other than contributions, may include:

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

~~197.~~244. The audit assertions for revenue received by a SMSF are:

- Occurrence – revenue received by the SMSF is real and has occurred;
- Completeness – revenue received by the SMSF has been recorded;
- Accuracy – revenue received by the SMSF has been recorded appropriately. Changes in market value are based on appropriate and accurate asset valuations;
- Cut-off – revenue received by the SMSF has been recorded in the correct period; and
- Classification – 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.

~~198.~~245. 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; and

[85] ~~See section 52B(2)(g) of the SISA.~~

Draft

- 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

~~199.~~246. 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:[86]

- 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 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; and
- Downsizer contribution.

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 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.

~~200.~~247. 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 – contributions and transfers in from or on behalf of members have been received and recorded;
- Accuracy – contributions and transfers in have been recorded appropriately;

86 See the Self-Managed Superannuation Fund annual return (NAT 71226).

- Cut-off – contributions and transfers in have been recorded in the correct period; and
- Classification – contributions and transfers in have been allocated to the correct member and correctly classified as concessional or non-concessional.

~~201.~~248. 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 and other contributions categories listed in paragraph 216;
- 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 tax components of transfers in;
- Acceptance of contributions in excess of the fund-capped contributions limit;[87]
- Understatement of market values for in-specie contributions to avoid exceeding the contributions caps; and
- Under or overstatement of market values for in-specie contributions either to provide early access to benefits or to disguise loans to members.

~~202.~~249. 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 reviewing member PAYG information analytically.

Expenses

~~203.~~250. The typical expenses of a SMSF may include:

- Administration fees;
- Audit fees;
- Actuarial advice;
- Legal advice;
- Valuation fees;
- Accounting and tax agent fees;
- Superannuation supervisory levy;
- Investment management fees and financial planning advice;
- Bank fees;
- Property expenses;
- Insurance premiums paid; and

[87] Contributions caps are discussed in paragraph ~~218~~ 230 of this Guidance Statement.

Draft

- Taxation.

~~204.~~251. The audit ~~objectives~~ assertions with respect to a SMSF's expenses are:

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

~~205.~~252. 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; and
- Incorrect tax treatment of an expense.

~~206.~~253. 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 trustee services to the SMSF, which are prohibited.[88]

Tax Expense

~~207.~~254. 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~~ assertions 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 – assessable income, including capital gains, received by the SMSF has been declared;
- Accuracy and Valuation– 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;
- Allocation – tax expense is correctly allocated to member's account. Member specific items such as contributions, insurance premiums, exempt pension income are allocated to the member on an after-tax basis. Where a fund has a pooled investment strategy, the allocation to member accounts is generally based on a proportionate method of the total membership. Where a fund has segregated assets, the income, expense and tax allocation is member specific.

Draft

88 See section 17(B) of the SISA.

- 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; and

- Classification – the tax status of contributions is correctly determined. Timing differences have been correctly identified and accounted for.

255. 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.

~~208.~~256. The top marginal tax rate applies to *non-arm's length income and expenses (NALI/NALE)* as well as funds deemed to be non-complying superfunds.

~~209.~~257. 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 the 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 that adopt ~~operate under~~ a special purpose framework for reporting purposes, many elect not to apply AASB 112.

Ordinary Income

~~210.~~258. 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; and

- Dividend income derived but not yet received.

~~211.~~259. Ordinary income does not include:

- Non-concessional contributions;

- Income not derived;

- Non-reversionary bonuses on life policies; and

- Income from assets used to fund pensions.

~~212.~~260. 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.

Draft

Contributions

~~213.~~261. ~~SMSFs are prohibited from accepting a single contribution for a member that exceeds the fund-capped contributions[89] limit specified in the SISR,[90] in a financial year. If the fund has received an amount which is inconsistent with the limit, the trustees must return it to the contributor within 30 days of becoming aware of the inconsistency.[91] 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.

~~214.~~262. 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.

263. 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 confirms the contribution is supported by a Capital gains tax election – instructions and form.[92]

Some contributions are time limited and audit considerations normally include reviewing the date the contribution was recorded as being received against the specific contribution time limit. For example, concessional contributions must be allocated to a member within 28 days of their receipt. This is particularly important if the fund uses the contribution reserving strategy.

264. The downsizer contribution requires the individual to make the contribution to super within 90 days of the receipt of the settlement funds from the sale of an eligible property.

265. Contributions under the small business 15-year exemption or the retirement exemption are required to be paid into the fund when the individual makes the choice or, when they receive the capital proceeds from the CGT event, if they are under age 55. Individuals over 55 do not have to make the contribution to super in order to qualify for the CGT exemption however, ~~if they~~ if they do, the contribution must be made the later of the day the tax return is required to be lodged in the year of the CGT event or, 30 days after the capital receipt.

~~215.~~266. If an individual receives a capital gain from a company or trust as a CGT concession stakeholder, the paying entity must make the payment to the individual's superfund within 7-days of the date of the election or, within 7-days of receipt of the capital, if the stakeholder is less than 55 years of age.

Non-arm's Length Income

267. Non-arm's length[93] income (NALI) of a SMSF, which includes private company dividends (unless arm's length), income from non-arm's length transactions and discretionary or hybrid trust distributions, is not taxed concessionally. The auditor checks that any non-arm's length

~~[89] Fund-capped contributions are defined in regulation 7.04(7) of the SISR.~~
~~[90] See regulation 7.04(3) of the SISR. Legislation surrounding contributions and contribution caps can and does change. It is the auditor's responsibility to ensure that they are auditing according to the relevant and applicable legislation and regulation.~~
~~[91] 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*.~~
[92] See ATO form NAT 71161.
[93] 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.

income has been classified correctly. Undetected NALI may result in a material misstatement of the tax expense of the SMSF and the auditor may need to modify their opinion on the financial statements – Part A qualification.

Franked Dividends

~~216.~~268. 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 refund.

Capital Gains Tax

269. Growth in the value of most SMSF assets, is subject to Capital Gains Tax (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.

~~217.~~270. Additional testing may be ~~is~~ required where the SMSF made a CGT Relief election in the 2017 income year. A list of investments that were subject to CGT deferral should form a part of the audit working papers and the auditor ordinarily tests the correct calculation of the capital gain or loss if any of these deferred CGT assets were sold in the income year under review.

Goods and Service Tax

~~218.~~271. If the SMSF is registered for Goods and Service Tax (GST), generally due to owning business real property, and has taxed supplies (income) and input taxed supplies (expenses) the auditor , where material, reviews the GST calculation and business activity statements (BAS) to ensure that the correct amounts are being disclosed and the SMSF is meeting its 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 accounting fees for the preparation of the tax return or BAS or on audit fees.

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Deductions

~~219.~~272. 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.[94] 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 and are not tax deductible.

[94] 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.

273. The auditor ordinarily~~normally~~ reviews the fund activity to identify whether any non-arm's length expenses (NALE) were incurred during the income year. Non-arm's length expenses are those that are less than the amount that the fund might have been expected to incur if dealing with the other party at arm's length including ~~normally reviews~~where services or goods are received for no cost.[95]

As an example the auditor may consider any separate services provided by the trustee, in their capacity as trustee, as these are not able to be remunerated and do not fall into the NALE regime.

NALE results in the application of NALI rates of tax for the fund.

~~220.~~274. The auditor verifies that expenses are not claimed if they relate to exempt pension income.[96]

Actuarial Reports for Un-segregated Assets

~~221.~~275. Where a fund that does not qualify as holding "disregarded small fund assets" and 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

~~222.~~276. Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65 years, death, physical or mental incapacity,[97] termination of employment, or reaching preservation age and commencing a transition to retirement[98] income stream[99] (TRIS). In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.[100]

~~223.~~277. SMSFs may pay benefits by way of a lump sum (in cash or in specie[101]), pension or insurance benefit.[102] An accumulation fund may pay the following types of pensions:

(a) account based income streams, including TRISs; and

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

~~224.~~278. The relevant assertions with respect to benefits paid are:

- Occurrence – benefits recorded by the SMSF as paid have been paid;

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[95] LCR 2019/D3 provides the ATO views on NALI and NALE

[96] 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).

[97] This can be permanent or temporary incapacity which stops the member from engaging in gainful employment.

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

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

[100] 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 ~~28434 to 2836~~281-283 for further guidance on benefit splitting.

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

[102] 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.

- Completeness – 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 TRISs only, the payment does not exceed the maximum annual payment amount. The correct amount of Pay-As-You-Go (PAYG) withholding tax, has been withheld, where the benefit is from an untaxed source or the member is under 60 years;
- Cut-off – benefits paid by the SMSF have been recorded in the correct period; and
- Classification – benefits paid by the SMSF have been recorded in the applicable accounts including the applicable member's account.

~~225.~~279. 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 is not entitled, providing early access to benefits.
- Incorrect calculation of a benefit payment.
- 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 TRIS is exceeded.

~~226.~~280. For death benefits, the auditor establishes if a binding death benefit nomination exists, and determines that the specific trust deed requirements have been met following the death of a member.

~~227.~~281. 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 the 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

~~228.~~282. 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;

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(d) Notice by a non-member;[103]

(e) Notice by a trustee of information regarding an interest subject to a payment split;[104]

(f) Payment split notice by a trustee to both member and non-member;[105] and

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

 (i) create a new interest;[106]

 (ii) rollover or transfer benefits;[107] or

 (iii) pay a lump sum where a non-member has met a condition for release.[108]

~~229.~~283. 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 any 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 trustee; or

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

~~230.~~284. Due to the potential complexities and subtleties of the court orders, the possibility that court orders inadvertently conflict with the SISA or SISR exists, 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

~~231.~~285. 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.[109] 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 to the expected date of the auditor's report for the next annual reporting period.

~~232.~~286. 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

[103] See notice under regulation 72 of the *Family Law* (*Superannuation*) *Regulations 2001*.
[104] See notice under regulation 2.36C of the SISR.
[105] See notice under regulation 7A.03 of the SISR.
[106] See notice under regulation 7A.03C or 7A.05 of the SISR.
[107] See notice under regulation 7A.03D or 7A.06 of the SISR.
[108] See notice under regulations 7A.03E or 7A.07 of the SISR.
[109] ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

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position for the purposes of reporting under SISA section 130,[110] the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

~~233.~~287. The auditor is concerned with whether the net assets of the SMSF exceed the vested benefits, which are payable to members irrespective of whether they continue as a member. If there is a deficiency in net assets with respect to vested benefits the SMSF may not be a going concern, 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.[111] 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.[112]

~~234.~~288. 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.[113] 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.

~~235.~~289. Having considered the matters described in paragraphs ~~237~~ 244 to 24~~0~~7, 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 an emphasis of matter section in the auditor's report regarding a going concern uncertainty, where 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:

  (i) 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.

~~236.~~290. Under ASA 570, the auditor communicates to the trustees if a modified opinion is to be issued in relation to going concern. This communication may be done in conjunction with

[110] Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph 361 of this Guidance Statement.
[111] See regulation 9.38(1) of the SISR.
[112] See regulation 9.35 of the SISR.
[113] See regulation 9.17 of the SISR.

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communication of other matters of governance interest arising from the audit, discussed further in paragraphs 314~~261~~ to 318~~265~~.

Subsequent Events

~~237.~~291. 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 divorce 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.

~~238.~~292. 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, such as valuation adjustments, to the financial report. Whereas, if an immaterial investment of the SMSF became worthless, this may not warrant any amendment.

Winding-Up

~~239.~~293. If the trustees decide to wind up the SMSF, the SMSF still needs to be audited for the relevant financial year.

~~240.~~294. Upon winding-up, an audit is performed with increased focus 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;
- Final income year that the tax and lodgement levy has been paid;
- Cash – to ensure there are no transactions post balance date and that the balance is nil at balance date. This may include accounting for any tax refunds that were due to be paid to the fund; and~~.~~
- Rollovers – to test whether they were paid to and received by complying superannuation funds.

~~241.~~295. If the fund's bank account remains open with a small balance in order to attend to the final wind-up expenses, such as tax payments and accounting and audit fees, the auditor may consider modifying their opinion. The auditor would undertake a post balance review required to assess whether the bank account has been closed.

Change of Auditor

~~242.~~296. When a SMSFs audit is transferred 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.

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Anti-Money Laundering

~~243.~~297. The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) is legislation designed to assist with the identification of, and 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. SMSFs do not provide a designated service and accordingly are not required to report under the AML/CTF Act. ~~–~~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.

Reporting

~~244.~~298. 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 financial operations of the entity for that year; and

(b) give the trustees the auditor's report in the approved form,[114] 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.[115]

~~245.~~299. 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 standard requires the auditor to 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.

~~246.~~300. 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.

~~247.~~301. 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

~~248.~~302. Modifications to the auditor's opinion may be either:

(a) a qualified opinion;

(b) an adverse opinion; or

(c) a disclaimer of opinion;~~.~~

~~(c)~~

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

Modified opinion

303. ASA 705 requires an auditor to modify their opinion in the audit report when:

114 The ATO approved form auditor's report is available at www.ato.gov.au/superfunds
115 See regulation 8.03 of the SISR.

(a) based on the audit evidence the financial report is not free from, material misstatement.

(b) the auditor is unable to obtain sufficient appropriate audit evidence to conclude the financial report is~~f~~ free from material misstatement.

An example in the context of a SMSF audit is where the auditor is not able to obtain evidence of the (market) valuation of unlisted investments.

Qualified opinion

~~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. 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".~~

304. ASA 705 requires an auditor to qualify their opinion when:

(a) based on sufficient audit evidence, they conclude there are material misstatements in the financial report or;

(b) they are unable to obtain sufficient appropriate evidence to base the opinion but concludes that the possible effects on the financial report of undetected misstatements could be material.

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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. 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".[116]

Adverse O~~o~~pinion

ASA 705 requires the auditor to express an adverse opinion when, having obtained sufficient appropriate audit evidence, they conclude that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

305. ~~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.~~

[116] Ryan Wealth Holdings Pty Ltd v Baumgartner [2018] NSWSC 1502 - a NSW Supreme Court appeal - examined a significant loss within a SMSF due to material misstatement of the financial statements and found the fund's auditor was liable for 80% of the loss incurred due to their negligence in not qualifying the audit report.

The opinion paragraph is headed "Adverse Opinion".

Disclaimer Opinion

~~Need to add a paragraph on disclaimers (link to changes in IAR)~~

306. 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, is unable to express an opinion on the financial report as a whole. ~~In these circumstances, the opinion paragraph is headed "Disclaimer of Opinion".~~

Paragraph 13 of ASA 702 requires an auditor to:

(a) ~~(i)~~ Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)

~~(d)~~ ~~(ii)~~ If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial report. (Ref. Para. A14).

(b) In these circumstances, the opinion paragraph is headed "Disclaimer of Opinion".

Emphasis of Matter

~~249.~~307. 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 form auditor's report[117] includes the required wording.

~~250.~~308. 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 an emphasis of matter paragraph does not affect the auditor's opinion, but draws the users' attention to the matter raised.

Other Matter

An auditor's report may include ~~an~~ another

~~251.~~309. -matter paragraph to highlight:

(a) information about the auditor's responsibilities, the audit or the auditor's report;

[117] The ATO approved form auditor's report can be found on the ATO's website: https://www.ato.gov.au/Forms/SMSF-independent-auditor-s-report

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(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; or

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

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

~~252.~~1. ~~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. 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".~~

~~253.~~1. ~~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, is unable to express an opinion on the financial report as a whole. In these circumstances, the opinion paragraph is headed "Disclaimer of Opinion".~~

~~254.~~1. ~~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".~~

310. Whenever the auditor expresses a modified opinion, 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.

Auditors to Act Independently

311. SMSF auditors need to ~~are required to at all times~~ demonstrate a degree of professional scepticism, act independently and meet their ethical obligations under the Code of Ethics The auditor undertakes the audit of the SMSF financial statements and compliance engagement ~~and ensure they act~~ in accordance with their engagement letter with the SMSF Trustee, along with the consideration of various legislative requirements as discussed throughout this guidance statement.

Case law indicates SMSF auditors have 'significant ability to detect and prevent loss' and 'to protect the (audit) fund against financial risks'.[118] The ~~financial statement audit planning~~ Part A financial statement audit is undertaken in order for the ~~a~~Auditor to express an opinion on the likelihood of material misstatement in the financial statements and that audit opinion must be made free of any conflicts of interest.

~~*to Act I*~~aaaaa aaunderstand.~~T~~

118 Ryan Wealth Holdings Pty Ltd v Baumgartner [2018] NSWSC 1502; Cam & Bear Pty Ltd v McGoldrick [2018] NSWCA 110.

Communication of Audit Matters

~~255.~~312. 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.

~~256.~~313. 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.

~~257.~~314. 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 audit working papers. Oral communications may need to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.

~~258.~~315. 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.

316. 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 360-367).[119]

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[119] See also *Cam & Bear Pty Ltd v McGoldrick [2018] NSWCA 110 and Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502.

PART B – COMPLIANCE ENGAGEMENT

~~259.~~317. 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.

~~260.~~318. 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.

~~261.~~319. 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.[120]

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

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[121] Part B SISA/SISR	ACR[122] 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 at least 10 years.	S.103	S.103
	Maintains records of changes to trustees	S.104	
	Maintains trustees' declarations about understanding their duties for those who become trustees for the first time after 30 June 2007, kept for as long as relevant or at least for 10 years.	S.104A	S.104A
	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[123]	
	Maintains copies of all member or beneficiary reports for a minimum of 10 years.	S.105[124]	
	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	R.13.18AA
	Restrictions on acquiring or holding "in-house" assets.	Ss.82-85	Ss.82 -.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.	R.4.09A	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	S.67

[121] Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July ~~2014~~ 2019 (NAT 11466).
[122] Auditor-actuary contravention report (ACR) (NAT 11239) available through the ATO's website using eSAT or by ordering a paper form.
[123] Section 104 of the SISA is a requirement that was included in the ATO approved form auditor's report for the periods commencing on or after 1 July 2014, but was not included in the ATO approved form auditor's report for the previous period.
[124] Section 105 of the SISA is a requirement that was included in the ATO 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.

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Category	**Specific Criteria**	**Auditor's Report[121] Part B SISA/SISR**	**ACR[122] SISA/SISR**
	Prohibition on charges over SMSF assets.	R.13.14	R.13.14
	Assets valued at market value	R.8.02B	R.8.02B
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[125]
Other regulatory information	Information regarding the SMSF or trustees which may assist the ATO, including compliance with other relevant SISA sections and SISR regulations.	-	Ss129S and 130A[126]

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Materiality

~~262.~~320. 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.

~~263.~~321. In determining whether a contravention identified is material, and therefore whether a modification to the auditor's report is warranted, the auditor considers factors such as:

- The quantum 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; and
- Actual or potential damage to members of a breach of the SISA or SISR occurring.

[125] 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."
[126] 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.

Establishment and Operation of the SMSF

~~264.~~322. 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 a SMSF;

(b) the trustees are not disqualified persons;

(c) the SMSF's minutes and records are retained for 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.[127]

Definition of SMSF

~~265.~~323. To determine if the SMSF meets the definition of a SMSF,[128] 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 a 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; and
- Obtaining trustee representations.

[127] See subsection 35C(2) of the SISA.
[128] 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.

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Disqualified Persons

~~266.~~324. An individual SMSF trustee is disqualified under the SISA[129] if they are:

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

(b) the subject of a civil penalty order under SISA;

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

(d) disqualified by the ATO.

~~267.~~325. A corporate trustee is disqualified if:

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

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

326. Ordinarily, the auditor verifies that the trustees are not disqualified by obtaining trustee representations to that effect. For new engagements, as well as periodically for continuing audits, the auditor seeks independent verification of the trustee status.

327. The ATO publishes a *Disqualified trustee register* that is compiled from the *Government Notices Gazette.* The register is updated quarterly and lists individuals that have been disqualified since 2012.

328. In addition, ASIC provides details of disqualified persons in respect of corporate trustees. Auditors are able to search the 'banned and disqualified register' on the ASIC website for information about individuals who have been disqualified from involvement in the management of a company.

329. 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,~~[130] ~~the~~ASFA's National Personal Insolvency Index that ~~listing~~ lists bankrupts as well as the Bankruptcy Register Search (BRS)~~, ASIC Company Register for Company Status~~ or other commercial databases providing record search facilities.

Maintenance and Provision of SMSF Records

~~268.~~330. The auditor obtains representations from the trustees that the minutes and records of meetings have been held for at least 10 years, that accounting records and financial reports have been retained for 5 years, 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 trustees appointed after 30 June 2007, they have signed and retained a "Trustee Declaration" for at least ten years.[131]

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

~~[130] 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.~~

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

~~269.~~331. The SISA requires that the records be kept in the English language or a form that is readily convertible to English[132] 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.

~~270.~~332. The auditor may request that the trustees provide documents required to conduct the audit. If trustees fail to provide the documents required within the specified time period, this is a compliance breach which, if material, 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

~~271.~~333. 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.[133] The auditor may obtain representations from the trustees that no such arrangement has been entered into.

Investment Strategy

~~272.~~334. ~~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[134] 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 requirement;.
- The ability of the SMSF to discharge its existing and prospective liabilities; and
- Whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

~~273.~~335. 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".

336. 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. Case law provides further

[132] See section 35A of the SISA.
[133] See section 52(2)(e) of the SISA.
[134] See regulation 4.09 of the SISR.

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authority to the requirement for SMSF auditors to conduct their enquiries independently and to communicate any weaknesses with the trustee directly. [135]

~~274.~~337. 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.

338. 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

~~275.~~339. The SISA[136] 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 allowable purposes ("exclusivity of purpose") and requires a higher standard than maintenance of the SMSF for a dominant or principal purpose. The approved form auditor's report, 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".

~~276.~~340. The trustees of a SMSF are required to maintain the fund 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;
- Employing and using the SMSF's assets; and
- Paying benefits, including those benefits on or after retirement.

~~277.~~341. 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". Case law provides authority to the practical application of

[135] *Ryan Wealth Holdings Pty Ltd v Baumgartner* NSWSC [1502].
[136] See section 62 of the SISA.

section 62 and the ATO has reviewed the Ruling, and issued a decision impact statement as a result to further clarify their position as Regulator.[137]

~~278.~~342. 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. Furthermore, the SISR[138] contains strict regulations in relation to collectables and personal use assets. In-house assets are discussed further in paragraphs 300 to 302, while collectables and personal use assets are discussed further in paragraphs 296 to 299.

~~279.~~343. 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 trustee;.
- Has been provided at a cost or financial detriment to the SMSF; and
- 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).

~~280.~~344. 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;.
- The trustees comply with the covenants in section 52B of the SISA; and
- The benefit relates to activities which are part of a properly considered and formulated investment strategy.

~~281.~~345. 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;.[139]
- Loans or financial assistance to members or relatives;[140]
- Acquisitions from related parties;[141]
- Charges over assets;[142]
- Assignment of, or charges over, member's benefits;.[143]
- SMSF assets not held separately from the members' personal assets;[144]

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[137] *Aussiegolfa Pty Ltd (trustee) v Federal Commissioner of Taxation* (VID 54 of 2018 VID 83 of 2018).
[138] See regulation 13.18AA of the SISR.
[139] See section 109 of the SISA.
[140] See section 65 of the SISA.
[141] See section 66 of the SISA.
[142] See regulation 13.14 of the SISR.
[143] See regulations 13.12 and 13.13 of the SISR.
[144] See section 52B(2)(d) of the SISA and regulation 4.09A of the SISR.

- Acquisition of "in-house" assets in excess of 5% of the total market value of the SMSF assets;[145] and
- Collectables and personal use assets.[146]

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

Running a Business

~~282.~~346. 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 members' benefits.[147] 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.

~~283.~~347. If a trustee is also an employee of the business, payment of salary or wages to the trustee 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.

~~284.~~348. 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

~~285.~~349. 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 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.[148] 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

~~286.~~350. 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.

[145] See part 8 of the SISA.
[146] See regulation 13.18AA of the SISR.
[147] 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.
[148] See paragraph~~s~~ 347~~00-302~~.

Collectables and personal use assets

~~287.~~351. 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 or their related parties. Collectables or personal use assets[149] that are acquired by the fund on or after 1 July 2011 are subject to restrictions[150] contained in the regulation 13.18AA of the SISR including that:

- They must not be leased to any related party[151] of the fund;
- They must not be stored or displayed in the private residence of any related party of the fund;
- They 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 at least 10 years;
- They must be insured in the name of the fund within seven days of acquisition; and
- Transfers of ownership to related parties must be done at market value[152] determined by a qualified independent valuer.[153]
- The auditor obtains sufficient appropriate audit evidence that trustees have complied with the restrictions on collectable and personal use assets of the fund.

~~288.~~352. 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.[154] 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.

~~289.~~353. Investments in holiday houses or apartments need to be reviewed to ascertain if there has been 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 has been breached and may also render the investment an "in-house" asset,[155] 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.[156]

~~290.~~354. 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"

~~291.~~355. An "in-house" asset of a SMSF is an asset that is a loan to a 'related party' (defined term), an investment in a related party, an investment in a related trust or an asset of the SMSF

[149] Collectables and personal use asset list contained in Regulation 13.18AA(1) of the SISR.
[150] Restrictions ~~are~~ were subject to transitional arrangements. Collectables and personal use assets held by funds prior to 30 June 2011 ~~are~~ were not subject to restrictions until 1 July 2016, at which time, trustees ~~will~~ were~~be~~ required to comply with all restrictions. This transitional period provide~~s~~d SMSF trustees with existing investments in collectables and personal use assets time to comply with the rules.
[151] Related party is defined in Section 10(1) of the SISA.
[152] Market value is defined in Section 10(1) of the SISA.
[153] See ATO's Valuation guidelines for self-managed superannuation fund (web-based).
[154] See regulation 13.18AA(6) of the SISR.
[155] See guidance on "in-house" assets is provided in paragraphs 300 to 302 of this Guidance Statement.
[156] See regulation 13.18AA(6) of the SISR.

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subject to a lease between the trustees and a related party of the SMSF.[157] A related trust is a trust that a member or employer-sponsor controls.[158] There are a number of exceptions to the definition of in-house assets and transitional provisions included in Part 8 of the SISA.[159] The auditor needs to be familiar with these exceptions when considering in-house asset requirements.

~~292.~~356. 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[160] and at year end.[161] 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.

357. 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, or by concealing the related party connection. Such actions are prohibited under the SISA.[162]

~~293.~~358. If the level of IHA exceeds 5%, the trustee is required to develop a written plan to reduce the level below 5% by the end of the following income year. Where a SMSF has IHA that are greater than the 5% limit, the auditor may obtain a copy of the rectification plan and include details of their testing in the audit working papers.

Acquisition of Assets from Related Parties

~~294.~~359. Trustees and investment managers are prohibited, under the SISA,[163] 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% 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 section 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% limit.

~~295.~~360. Business real property[164] is land and buildings used wholly and exclusively for business purposes.[165] It does not extend to:

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

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157 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.
158 Defined in subsection 10(1) of the SISA.
159 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 SISA.
160 See section 83 of the SISA.
161 See section 82 of the SISA.
162 See section 85 of the SISA.
163 See section 66 of the SISA.
164 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.
165 See SMSFR 2009/1 Business real property for the purposes of the SISA.

(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 primary production business.

~~296.~~361. Assets which would ordinarily be defined as in-house assets but which are exempt under the provisions of section 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.[166]

~~297.~~362. Ordinarily, the auditor examines the documentation surrounding the purchase of material investments, 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 parties, whether individuals or entities related to the trustees or members.

Arm's Length Investments

~~298.~~363. The SISA[167] 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; and
- Investments which are inconsistent with the investment strategy or entered into without a sound rationale.

~~299.~~364. 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[168] requires that 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)

166 See regulation 13.22A - 13.22D of the SISR
167 See section 109 of the SISA.
168 See section 109(1)(b) of the SISA.

being taxed as non-arm's length income, and the asset disposal being treated as a non-arm's length disposal.

Assets Held Separately

~~300.~~365. The trustees are required[169] 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 an acknowledgement of trust.

~~301.~~366. Where there has been a change in trustees, the auditor generally checks that the ownership documents for fund assets have been updated.

~~302.~~367. 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

~~303.~~368. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives[170] and the approved form auditor's report states that the auditors 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.[171]

~~304.~~369. 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.

~~305.~~370. 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.

Borrowings

~~306.~~371. SMSFs are not permitted to borrow money,[172] with the exceptions[173] of borrowings:

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[169] See subsection 52B(2)(d)of the SISA, and Regulation 4.09A of the SISR.
[170] See 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.
[171] 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.
[172] See section 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.
[173] See sections 67 and 67(A) of the SISA.

(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 seven 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 complying limited recourse borrowing arrangement.[174]

~~307.~~372. 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.

~~308.~~373. 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.

~~309.~~374. 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.

~~310.~~375. Where the SMSF has derivative instruments – a charge over assets that is required to be given for compliance with listing rules (covered calls), the auditor obtains the derivative risk statement prepared by the trustees and considers whether it complies with regulation 13.15A of the SISR.

~~311.~~376. 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.

~~312.~~377. 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

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[174] See ATO Ruling SMSFR 2012/1 Self-Managed Superannuation Funds: limited recourse borrowing arrangements – application of key concepts (SMSFR 2012/1).

subsection 67(4A) of the SISA. Those rules continue to apply to limited recourse borrowing arrangements that were entered into before 7 July 2010.

~~313.~~378. For limited recourse borrowing arrangements[175] 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[176] in very limited circumstances specified in the law;

(b) superannuation fund trustees cannot borrow to improve an asset[177] (for example, real property);

(c) the borrowing is permitted only over a single acquirable 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.[178]

~~314.~~379. 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 limited-recourse agreement as required by the SISA,[179] 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 have 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;
- 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

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[175] See sections 67A and 67B of the SISA.
[176] 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.
[177] Table 1 in ATO ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.
[178] See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.
[179] See subsection 67A(1) of the SISA.

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; and
- 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, e.g. ordinary shares; and
  - there is no charge over the asset except per the limited recourse arrangement.[180]

Charges Over Assets

~~315.~~380. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility[181] and, hence, charges and liens over assets are not permitted. Also, charges and liens over any member benefits are prohibited. Additional audit procedures include review of any bank confirmations for charges, 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.

~~316.~~381. 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.

~~317.~~382. 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.

~~318.~~383. Ordinarily, the auditor requests the most recent~~a~~ financial report and tax return along with distribution statements~~,~~ for investments in unit trusts, to identify net asset value, any debts owing by the unit trust and income received and paid by the trust. In certain cases, the unit trust deed may be required to assist the auditor in assessing the investment against SISA investment rules~~compliance~~.

Asset Valuation

~~319.~~384. The trustees are required to value fund assets at market value.[182] See paragraphs 163 to 171 for requirements and explanatory guidance on asset valuations.

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

[181] See regulation 13.14 of the SISR. Also see ATO IDs 2010/162, 2010/169, 2010/170, 2010/172, 2010/184 , 2010/185, 2014/39 and 2014/40.

[182] See regulation 8.02B of the SISR.

Benefit Restrictions

~~320.~~385. 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.[183]

Minimum Benefits

~~321.~~386. The trustees are required[184] to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred.

Payment of Benefits

~~322.~~387. Generally, benefit payments are triggered due to a condition of release being met. The 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[185] 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, attaining the prescribed preservation age for a transition to retirement benefit,[186] severe financial hardship and compassionate grounds which are assessed by the ~~Department of Human Services~~ATO in accordance with regulatory requirements.[187]

~~323.~~388. For pension payments, the auditor ensures that any payments meet the minimum and maximum,[188] 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[189] which is calculated by applying a percentage rate, dependent on the member's age,[190] 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 commutation[191] of an account based pension (including a TRIS[192]) counts towards the minimum annual amount. 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.[193]~~ 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.

389. Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year[194] and the income from assets that support the pension will

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183 More information is available on the ATO's website ato.gov.au (search under Paying benefits).
184 See regulation 5.08 of the SISR.
185 Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.
186 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.
187 ~~Under part 6 of the SISA the Chief Executive of Medicare has the general administration of~~ Regulation 6.19A SISR ~~regulations about the release of superannuation on compassionate grounds~~.
188 Maximum payments exist for TRISs.
189 See subregulation 1.06(9A)(a) of the SISR.
190 See schedule 7 of the SISR.
~~191 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.~~
~~192 SMSFD 2014/1 specifically includes TRISs.~~
~~193 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.~~
194 ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and consequently when a superannuation income stream is payable.

not be tax exempt for the year.[195] The ATO guidelines Self-Managed superannuation funds – starting and stopping a superannuation income stream (pension)[196] 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.

In the year of death, reversionary pensions continue to be paid based on the minimum pension factor of the primary beneficiary. Thereafter, the pension factor that applies to the age of the beneficiary applies.

If the minimum pension is not paid in the year of the death, the trustee can self-assess to treat the fund as continuing to pay the pension if the shortfall is small, or resulted from an error. In all other cases, the pension is deemed to have stopped and accordingly, the trustee must ensure the death benefit is paid as soon as practicable. The options available for the payment of the death benefit include commencing a death benefit pension, paying the death benefit as a maximum of 2 lump-sums or, rolling over the death benefit to another superannuation fund for immediate cashing as a new death benefit pension.

~~324.~~390. The trustee must however consider the terms of the fund's trust deed along with any member nominations that are on file when determining how the death benefit is to be paid.

~~325.~~391. 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.

~~326.~~392. 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; and

~~(c)~~(d) in the case of a retirement phase pension, the capital amount used to commence the pension was no more than the member's transfer balance cap.

~~327.~~393. 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~~ member declaration, or similar document stating that the individual has retired and will not be seeking paid employment in the future. Further substantiation could include employment separation documentation such as an employer letter.

~~328.~~394. 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.

~~329.~~395. 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 and it complies with the requirements in the fund's trust deed. ~~.~~ The auditor ascertains where the death benefits have been paid to confirm that they have gone to either a dependant(s) or to the

[195] See sub-regulation 1.06(9A) and Schedule 7 of SISR.
[196] 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).

legal personal representative (LPR) of the ~~the estate of the~~ deceased member. The auditor enquires as to whether any additional insurance benefit is payable.

~~330.~~396. A binding death benefit nomination for a SMSF must be made in accordance with the provisions of the trust deed for it to bind the trustee in the making of the death benefit payment decision. In the event a SMSF has paid a death benefit in the year being audited, procedures may include checking the form of any binding nomination on file against the terms of the trust deed and making enquiries to~~has been made, ordinarily, the auditor enquires to~~ ensure that the benefit was paid ~~appropriately~~ according to the ~~nomination's~~ stated ~~intent~~direction and that the~~. The auditor also checks that~~ nominated beneficiaries are entitled to receive death benefits under the trust deed and ~~the~~ superannuation law.

397. 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.

~~331.~~398. Retirement phase income streams are pensions paid to a member following their satisfaction of a trigger event with a nil cashing restriction. The level of capital that can be applied to a retirement phase pension is restricted by the individual's transfer balance cap (TBC). The commencement of a retirement phase pension as well as a commutation (partial or full) is required to be reported against the individual's transfer balance account (TBA) within specific time periods. The review of the fund includes checking the reporting has been undertaken appropriately.

Assignment of Members' Interests and Charges over Members' Benefits

~~332.~~399. 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,[197] or a charge over, or in relation to, a member's benefits.[198] Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

Contribution Restrictions

~~333.~~400. 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.[199] 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.

~~334.~~401. The auditor tests that the SMSF has accepted contributions ~~only~~ in accordance with the SISR,[200] 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:

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[197] See regulation 13.12 of the SISR.
[198] See regulation 13.13 of the SISR.
[199] See TR 2010/1 Income tax: Superannuation contributions.
[200] See regulation 7.04 of the SISR.

(i) the member is under 65 years old;

(ii) the member is not under 65 years but is under 70 years and has been gainfully employed at least on a part-time basis (work test) during the financial year in which the contribution is made;[201]

(iii) the member is over 65 but is under age 75 and has a total superannuation balance of less than $300,000 (at the start of the year) and has satisfied the work test in the preceding 12-month period when the contribution is made. This work test exemption can be used in conjunction with the unused concessional contribution cap opportunity contribution category however, is a one-off opportunity (can only be used once)

~~(ii)~~(iv) the member is under age 67 …….or;

Commented [H1]: Subject to going live. Include now or?

~~(iii)~~(v) the member is not under 70 years but is under 75 years 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 years 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.

~~(d)~~

~~335.~~402. The auditor also tests that contributions are:

(a) within contribution caps specified in the SISR and the ITAA[202], being:

(i) if the member is 64 years 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 years but less than 75 years 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

403. The non-concessional contribution cap (NCC) is 4 times the concessional contribution cap or, Nil if the member's total Superannuation Balance (TSB) exceeds the general transfer balance cap (TBC) as at the start of the income year the contribution is made.

404. A member under 65 years of age may be entitled to bring-forward up to three years non concessional cap in a single year. The "bring-forward" rule is triggered in a year where a member makes a non-concessional contribution that is greater than the cap. The amount that is able to be contributed depends on the member's TSB at the start of the year as follows:

Total superannuation balance at start of year	**Maximum NCCs using bring-forward**
< $1.4m	3 x the single year

[201] 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.
[202] ITAA 1997 section 292-85(2).

$1.4m - $1.5m	2 x the single year
$1.5m - $1.6m	1 x the single year
+ $1.6m	$0

405. If a member has a TSB below $1.4m at the start of the year and they trigger the bring-forward rule without maximising it, their TSB at the start of the following 2 years will determine their ability to complete the bring-forward.

~~336.~~406. 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; and
- The timing of when the contribution was made.

407. Ordinarily, the auditor checks to see that the classification of ~~any taxable~~ contributions ~~is~~are appropriate and allocated to the correct member account. (as per the contribution review)~~.~~ ~~If a single non-concessional contribution which is in excess of the non-concessional contributions cap 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.~~

Returning/refunding contributions

408. There are very limited circumstances where a SMSF trustee can return a contribution to a member or employer as follows:

(a) A contribution received by a member who does not satisfy the age restrictions.

(b) A member contributions received for whom the fund does not have a TFN must be returned to the contributor within 30 days of the amount being received[203]: However, the fund does not have to return such contributions if the member's TFN is quoted for superannuation purposes within 30 days of the amount being received by the trustee of the fund.

409. Contributions returned in accordance with the "law of restitution"[204]. The limited examples of the operation of the law of restitution include:

(i) an amount is paid to a superannuation fund by mistake – it was intended for a different purpose;

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[203] SISR 7.04(4)(a)

[204] See ATOID 2010/104 which includes case citation.

(ii) an amount is paid to a superfund that is greater than intended, for example, because of a clerical, transcription or arithmetic error.

A SMSF cannot return a contribution if it is in excess of the member's contribution limit. The excess contribution process is initiated by an "ATO Determination" which may provide the opportunity for the fund to return some or all of an excess contribution[205]

Audit procedures may include checking cash movements and validating receipts and payments along with substantiation of contributions received from employment arrangements. .

~~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.[206] 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.~~

~~337.~~410. With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated to the correct member.

In-specie Contributions

~~338.~~411. 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 of a member without any cash being exchanged.

~~339.~~412. Where contributions are accepted in-specie, the auditor assesses whether:

(a) the fund's governing rules permit in-specie contributions; and

(b) the SISA prohibitions on acquiring assets from related parties (including members) have been satisfied.

~~340.~~413. 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 at market value (p11); and

(c) not in breach of any other SISA prohibition.

Downsizer contribution

414. A downsizer contribution received from a member over the age of 65 must be accompanied by a *Downsizer contribution into super* form (ATO NAT 75073-12.2018). The form ensures the contribution is not counted to the member's contribution caps as well as enabling the member to make a contribution without satisfying the work test and permits members with greater than a TSB of $1.6m to contribute up to $300,000 to super.

415. Where a downsizer contributions are accepted, the auditor assesses whether:

[205] ~~See regulation 7.04 of the SISR~~ The "fund-capped contributions" limit (former reg 7.04(3) of the SIS Regs) has been repealed for non-concessional contributions from 1 July 2017.

[206] ~~See sub-regulation 5.03(1) of the SISR.~~

(a) The fund's trust deed permits downsizer contributions, or do not expressly prohibit the acceptance;

(b) There is sufficient evidence to confirm the member's eligibility to make the contribution;

(c) The member has not utilised the downsizer contribution opportunity previously.

Key risk areas may include:~~;~~

(a) The 10 year holding period. One member of the couple must have owned the property for at least 10 years;

(b) The property is at least partially exempt from CGT under the main residence exemption; and

(c) The sale contract is dated after 1 July 2018.

Use of Reserves

Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the trustees is appropriate for the fund ~~and~~ within the requirements of the SISA[207] and SISR, in accordance with the fund's trust deed and investment strategy, and ATO guidance provided in respect of the use of reserves[208].

-If the reserve was established prior to 1 July 2017, the ATO has stated that it can be maintained by the SMSF if it is not being used to circumvent the various caps and thresholds introduced from 1 July 2017[209]. This includes manipulation of the *total super balance (TSB)* in order to make contributions to the fund that are otherwise prohibited by reference to the level of the TSB; a higher allocation to the retirement phase and; access to the segregated method to calculate ECPI percentage.

Funds maintaining investment reserves should consider the ongoing appropriateness of these as they are likely to attract Regulator attention. If a SMSF still operates an investment reserve, ~~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.[210]

For contributions held in an unallocated contribution suspense account (formerly a contributions reserve) ~~y reserves~~, the auditor checks to ensure the amounts have been allocated to members' accounts within 28 days after the end of the month in which the contributions were received.

Allocations from other reserves will be classified as concessional contributions unless the allocation to member's accounts is less than 5% of the member's opening balance in the year of the transfer and all members receive an allocation.

Investment Returns

~~341.~~416. An auditor ordinarily checks to ensure that fund income is accurately credited or debited to relevant members' benefits in a way that is fair and reasonable.[211] The allocation

207 Section 115 SISA
~~208~~ SMSF Regulator's Bulletin 2018/1 *The use of reserves by self-managed superannuation funds* published 15/3/18. SMSFRB 2018/1
~~209~~ SMSFRB 2018/1
210 See sub-regulation 5.03(1) of the SISR.
211 See sub-regulation 5.03(2) of the SISR.

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should take into consideration all the members of the fund and the specific member accounts of each member of the fund.

Solvency

~~342.~~417. 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 and to the trustees in writing under section 130 of the SISA. The auditor completes Section G: Other Regulatory Information of the Audit Contravention Report (ACR).

~~343.~~418. Under the SISR,[212] the financial position of a SMSF is treated as unsatisfactory if, in the auditor's opinion 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.

Other Regulatory Information – Section G - ACR

~~344.~~419. In the course of conducting the audit, the auditor may obtain information regarding the SMSF, 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 may report any such information to the ATO in the ACR.

420. 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.

~~345.~~421. From 1 July 2019, a disclaimer making it clear that when an auditor provides information about a fund or trustee at Section G of the ACR, they are consenting to the disclosure of their identity to the SMSF trustee. If an auditor does not wish their identity to be disclosed, they would instead make an anonymous ~~voluntary~~ disclosure via the ATO website.

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Other Compliance Engagement Considerations

Service Organisations

~~346.~~422. 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 performs additional procedures necessary to conclude on the SMSF's compliance with the SISA and SISR, for example, reviewing cash transaction accounts to conclude on 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 completed at market value and is a permitted acquisition; or

(c) Confirmation that, to the knowledge of the service provider, none of the investments held is pledged as security.

212 See regulation 9.04 of the SISR.

~~347.~~423. 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

~~348.~~424. 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

~~349.~~425. 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;

(b) a trustee under SISA sections 129 or 130;[213]

(c) the ATO, in an ACR, under SISA sections 129 or 130; and

(d) the trustees in the auditor's compliance report.

~~350.~~426. 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.

~~351.~~427. 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 tests specified in the ACR instructions;[214] 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.[215]

~~352.~~428. ASAE 3100 requires the auditor's report on compliance to be modified if, in the auditor's judgement, material non-compliance with a requirement 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

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[213] 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.

[214] 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.

[215] See "Solvency" at paras ~~363-364~~416-417.

(b) material to the SMSF.

~~353.~~429. 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 uses professional judgement.

~~354.~~430. 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.

~~355.~~431. 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.

~~356.~~432. 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.

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Appendix 1

(Ref: Para. ~~5~~66~~7~~)

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 Australian Tax Office, which are sections 17A, 35AE, 35B, 35C(2), 62, 65, 66, 67, 67A, 67B, 82-85, 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.[216]

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, including those pertaining to independence ~~relating to audit and assurance engagements,~~ and to plan and perform the audit in order to obtain reasonable assurance as to 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,

[216] These sections and regulations need to be amended if there are any changes to the sections and regulations in the ATO approved form auditor's report.

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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 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 letter to the Trustees.

Compliance Engagement

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' . Our procedures will include testing whether the investments are made for the allowable purposes and in accordance with the investment strategy and legislative requirements~~provisions~~. Our engagement does not include providing an opinion on the appropriateness of investments for fund 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.[217] 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; and

[217] If the SMSF is a reporting entity or~~OR~~, from 1 July 2020 has a new or, amending trust deed that requires the preparation of financial statements in accordance with AAS, ~~-~~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."

- 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, relevant to the conduct of the audit, that the auditor requests in writing within 14 days of the request.

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.[218]

[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 shall advise you. The same strict confidentiality requirements apply under these programs as apply to us as your auditor.

[Limitation of liability][219]

[218] The auditor should retain an original hard copy in the working papers.
[219] 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~~(revised August 2019), 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.

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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.]

[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

Draft

Appendix 2

(Ref: Para. ~~118~~13542)

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.[220] 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 the 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

[220] 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.

Disqualified person

A person (including a director of a corporate trustee) must not intentionally be, or act as, a trustee or a director of a corporate trustee of a super fund if they are and know that they are, a disqualified person [section 126K of the *Superannuation Industry (Supervision) Act 1993* (SISA)].

An individual is a disqualified person if they:
- have ever been convicted of an offence involving dishonest conduct in any country
- have ever been subject to a civil penalty order under the SISA
- are an undischarged bankrupt, or
- have been disqualified by the Regulator.

A body corporate is a disqualified person if:
- a responsible officer of the body corporate is a disqualified person
- a receiver, receiver and manager, administrator or provisional liquidator has been appointed to the body corporate, or
- action has commenced to wind up the body corporate.

Acting while disqualified

If a trustee of a self-managed super fund (SMSF) is, or becomes, a disqualified person, they must immediately tell the Commissioner in writing, and must resign as a trustee as soon as possible.

If a disqualified person acts as an individual trustee or a director of a corporate trustee of an SMSF, this will not result in a fund failing to meet the definition of an SMSF until 6 months after the person become disqualified, however will result in the disqualified person contravening section 126K of the SISA.

Penalties can be applied to those who act as trustees while disqualified, including imprisonment for two years.

~~2.~~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), 62, 65, 66, 67, 67A, 67B, 82-85, 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.

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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's contravention report].

~~3.~~4. Investment strategy

The investment strategy has been determined and reviewed taking into account the circumstances of the fund as a whole with due regard to risk, return, liquidity and diversity.~~,~~ ~~and the assets of the Fund are in line with this strategy~~. As Trustees we have ensured the assets of the Fund have always been in line with this strategy. As ~~The~~ trustee we have~~has~~ considered the insurance needs of Fund members in determining the investment strategy.

5. Asset form and valuation

Investments are carried in the books at market value. We consider the valuations within the financial statements are 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.

~~4.~~6. 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 by the trustee in accordance with legislative requirements and the fund's trust deed.~~.~~

~~5.~~7. 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:

- accounting records and financial reports are being kept for five years,

Draft

- minutes and records of trustees' [or directors of the corporate trustee] meetings [or for sole trustee: decisions] 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
- trustee declarations in the approved form have been signed and are being kept for each trustee appointed after 30 June 2007.

~~6. 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.~~

~~7.~~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.

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~~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 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 the financial statements 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.

There have been no communications from the ATO concerning a contravention of the SISA or SISR which has occurred, is occurring, or is about to occur.

~~15.~~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.

~~16.~~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.]

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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 the 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]

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Appendix 3

(Ref: Para. ~~65~~76~~7~~)

SELF-MANAGED SUPERANNUATION FUND GOVERNING RULES PRELIMINARY UNDERSTANDING 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 individuals or a corporate entity?
C.3	Are all individual trustees or directors of the trustee company required to be members?

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Ref	Questions to be addressed in examining the trust deed
C.4	Does the deed permit members to be • A non-working spouse? • A retired person? • A child?
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	If a new fund or, deed has been amended, from 1 July 2020, does the deed specify the financial statements are to be prepared in accordance with the AAS? If so, the fund is required to prepare General purpose financial statements.
D.4~~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? • Downsizer contribution • 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? • Unused concessional cap carry forward – "catch-up contributions"
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~~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? Where a trust deed specifies a compulsory cashing event, provided it does not extend the law, it provides authority for the payment. For example, if the deed states that members must commence drawing their accrued benefits from age 65, all members who are at least 65 years of age should be in receipt of a benefit.
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?

Draft

Ref	Questions to be addressed in examining the trust deed
F.3	Does the deed provide for members to make death benefit nominations - Does the deed provide authority between death benefit nominations and reversionary pensions?
F.4	Does the deed include specific provisions relating to the payment of death benefits?
G	**PENSIONS**
G.1	Does the deed expressly allow for payment of pensions by the SMSF, including*: • Account based pensions.? • TRIS, including the auto conversion to a retirement phase TRIS following a nil cashing restriction trigger event. • Reversionary beneficiaries to be nominated. • Allocated pensions. • Term allocated or market linked or growth 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?
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 in which the SMSF may invest?
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?

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Appendix 4

(Ref: Para. ~~70~~81~~2~~)

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 the 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. Auditors verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions[221].

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 appropriately scoped to cover 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: • A signed copy of the Fund's governing rules. • Signed audited financial reports for the prior year, including the signed prior year's auditor's report. • Minutes/resolutions of trustee meetings. • Copy of the fund's investment strategy.

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 an 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.

[221] 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: https://superfundlookup.gov.au/ • Place copy on~~in~~ audit file.
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 auditor's 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 period's 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 period's financial report. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor considers 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. • 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. • New funds, and funds where the trust deed has been amended, from 1 July 2020 must be reviewed to ensure the financial statements are not required to be prepared in accordance with AAS. If there is a specific provision requiring this, general purpose financial statements (GPFS) are required. NOTE: the deed must specify "in accordance with AAS" for GPFS to apply to the fund. "In accordance with accounting standards", does not prescribe the requirement for GPFS to be prepared.

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Ref	Audit Procedure
D	**UNDERLYING ACCOUNTING RECORDS**
D.1	Obtain a copy of the SMSF's general ledger and agree the 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.
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 up and 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 bank 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. • Obtain a third party authority in order to liaise with the financial institution. Investigate whether online access is available via the third party authority. Internet banking includes a third party access permission whereby an individual login ~~in~~ is issued to the nominated user. • 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. • Review substantial entries and trace back to source (contributions, asset transactions, benefit payments).
E.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 (such as trustee minutes and subsequent bank statements to evidence the cash was received by the SMSF prior to and was deposited within a few days of period end. Alternatively evidence the source of the cash as a method of reconciling the transaction's validity.
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.

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Ref	Audit Procedure
F.3	Investor Directed Portfolio Services (WRAP accounts) • Obtain the relevant auditor's report issued ~~under ASIC Class Orders CO 13/763 or CO 13/762~~in accordance with ASAE 3402. • Confirm ~~that the~~ investments ~~are~~ held by ~~a~~the custodian ~~(IDPS) and~~ are identified as belonging to the SMSF - ~~.~~ Conduct sample testing of the IDPS operator's asset transactions. Other tests could include obtaining correspondence between the SMSF trustee and the IDPS operator regarding the transactions such as a Statement of Advice. • 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. • Where data has been transmitted via data feeds, a ASAE 3402 Type 2 Audit Report in respect of the process and controls should be obtained.~~.~~
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 at market value (SISR regulation 8.02B).
F.5	Property • 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 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.

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Ref	Audit Procedure
F.6	<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 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.

F.7	<u>Widely Held Unlisted Unit Trusts and Managed Funds</u>
	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 regulation 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	<u>Unlisted Closely Held Unit Trusts</u>
	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.
	  - Making 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.
	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.

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Ref	Audit Procedure
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).
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 deposit for the acquisition was paid from the SMSF cash balance. - 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: o A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or o A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or o 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 lender's 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. - For non-bank loan arrangements, review the loan agreement and check whether the terms are in accordance with the "safe-harbour" guide detailed in PCG 2016/5 and that the terms have been honoured. The safe-harbour terms provide a standard to demonstrate that the arrangement is ~~on~~ "arm's length" and thereby not subject to the NALI level of tax. • 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.

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Ref	Audit Procedure
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 the asset. • For all collectibles and Personal Use Assets, obtain evidence of: - Insurance policy or premium payment for insurance of the asset. - Lease documents, if leased to another party. - Storage arrangements. - Review the Personal Property Securities Register (PPSR) to ensure the asset(s) isn't encumbered. Retain in audit file. • 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. - Making 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). - Assessing 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 trustee has undertaken the valuation).
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.
G.6	If the accounts are prepared on a cash basis, ensure a reconciliation is on file to validate the actual distributions received compared to those recorded on the annual tax statement.
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**

Ref	Audit Procedure
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, 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 members' entitlements.
J	**RESERVES** ~~**– Review SMSFRB 2018/1 – ATO's view on SMSFs and reserves**~~
J.1	Reserves established prior to 1 July 2017 are permitted in accordance with section 115 SISA and the fund's trust Deed however, the management of these reserves must take into account the ATO's views in SMSFRB 2018/1.
J.1	Review SMSFRB 2018/1 – ATO's view on SMSFs and reserves The range of reserves permissible by a SMSF is limited and the Regulator Bulletin highlights the boundaries. Reserves established since 1 July 2017 require particular scrutiny in light of the Regulator Bulletin. The particular focus is where reserves are utilised to circumvent the Super17 reforms that apply restrictions to the level of tax concessions available to super:- • TSB manipulation in order to make NCCs; • Reduce member balance to less than $500k in order to make "catch-up contributions"; and • Use of reserves to reduce the member balance in respect of TBA reporting.
J.2~~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.3~~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.4~~3~~	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
J.5~~4~~	Any allocation from reserves is in accordance with the trust deed and subsection 292-25(3), Regulation 292-25.01 (concessional contributions). The allocation can have implications for the member if in excess of their concessional contribution cap.
K	**INVESTMENT AND OTHER REVENUE**
K.1	Analytical Review • 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 the period of the audit and confirm that the return is reasonable and not under or overstated.
K.2	Interest Income • 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 conduct analytical review procedures.
K.3	Changes in Market Value • Conduct an analytical review. • Test the changes in market value calculations including realised changes in market value to ensure that they are correct. • Reconcile to investments, for substantive audits.
K.4	Dividends • Vouch dividends received to dividend slips, published dividend rates or registry details. Generally, two dividends are paid each year. Vouch these as an initial test. • 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.
K.5	Trust Distributions • Vouch distributions received and receivable to distribution advices, ensuring that the discounted capital gains and other income has been correctly classified for tax purposes. Some tax statements -issued apply a 50% discount to capital gains – check the percentage applied is applicable to SMSFs.

Ref	Audit Procedure
K.6	Rental Income • Conduct an analytical review against rental agreement and period of tenancy. • Vouch rental income against agent's statements or other records, 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. • Check any rent reviews in the lease agreements during the period have been correctly applied. • Audit files should include a copy of the lease agreement and be carried forward annually until the term of the lease expires.
K.7	Other Income • If the SMSF receives other forms of income ensure that these are correctly calculated, earned and disclosed.
K.8	Non-arm's length income - NALI • Review transactions and investment acquisitions for the potential for the imposition of NALI. NALI can also be invoked from *non-arm's length expenses – NALE*. A significant impact to the tax calculation can occur if NALI is present and not reported.
L	**CONTRIBUTIONS AND TRANSFERS IN**
L.1	Concessional contributions • Review the amounts, frequency and pattern of contributions and if ~~there is a suspicion that~~you suspect contributions ~~may be~~are being diverted ~~from~~ to the fund seek confirmation of the contribution directly from the employer. All employers are required to report super contributions via the *single touch payroll (STP)* system. • Where the contributions are from a related employer, ensure you verify the contributions via the STP process. Small employers (less than 19) with 'closely held employees' are exempt from the use of STP until 1 July 2020 for the closely held payees only. If STP hasn't been enabled, manual verification is required.. • 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 (or notice prepared in accordance with the requirements of s 290-170 ITAA 1997) and confirm the details are consistent with the accounting treatment. • Review the receipt of "catch-up contributions" to ensure the qualifying conditions were met for the fund to receive the contribution. The 2020 financial year is the first year of operation of carry forward unused concessional contribution cap. Unused contributions are no longer available after year 5 and no unused contribution is available if the member's total superannuation balance at the start of the income year is $500,000 or more. Audit files could include documentation verifying the members qualification to utilise the catch-up opportunity. • For members > 65, verify the substantiation that the work test has been met and the contribution was permitted. • Ensure only mandated contributions received for members aged +75. • Ensure no-TFN contributions were received.
L.2	• Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.
L.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.4	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
L.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.

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Ref	Audit Procedure
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 to the prior year members' 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. • • Audit workpapers to include evidence of the validity of benefit payments to members. • Confirm that each benefit was paid in accordance with the terms of the fund's governing rules. • For death benefits, 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 commenced in the year under audit, sight the medical certification regarding the inability of the member to work again. • For a total and temporary permanent disability benefit commenced in the year under audit, sight the medical certification regarding the temporary inability of the member to work. • 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.
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 or, is a SMSF with "disregarded small fund 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. • Franking credits from dividends are correctly adjusted. • Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly. • CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount. • Request asset register for cost base reset investments - CGT Deferral in the 2017 financial year. Verify the CGT calculation of any sales and adjust the register. • Foreign tax credits are correctly adjusted. F~~, f~~oreign tax credits ~~may~~ can only be ~~claim~~offset~~ed~~ to the extent of foreign tax ~~payable~~ paid, or deemed to have been paid, on foreign income. Foreign tax offset claims of more than $1,000 are determined according to the *foreign income tax offset limit*. See worked example from the ATO: Foreign Tax Offset. •
	• Confirm whether 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.

Draft

Ref	Audit Procedure
O.2	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. • Prove 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 issue can arise when a fund has been wound up and the members were paid benefits exceeding their entitlements. 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. • Consider a modification to the auditor's report. • Solvency issues may be identified if the financial statements have not been correctly stated at market value. If you cannot obtain appropriate substantiation of the market value of significant fund assets or liabilities, you may not be able to attest that the fund is a "going concern".
Q	**SUBSEQUENT EVENTS**
Q.1	Identify any subsequent events which would affect the financial report, 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.

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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; • Auditor's views about significant findings from the audit engagement; - Significant matters discussed with the trustees include uncorrected 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; • Confirmation as to the independence of the auditor.

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Appendix 5

(Ref: Para. 59~~6049~~)

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 (including Independence Standards)[222], 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 Code of Ethics as required by Regulation 9A.06 of the SISR.[223]

	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~~into ~~reciprocal~~ arrangements with a range of~~n~~ independent practitioners or firms for referral of SMSF audit engagements. It is important that these arrangements are subject to regular rotation to maintain independence and avoid self-interest, familiarity and intimidation threats. Your engagement should be directly with the SMSF Trustee not via an agency with the referring practitioner.
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. If the audit engagement was terminated, t~~T~~he resultant loss of work ~~by withdrawing~~ may be overcome by entering into arrangements with a range of independent practitioners or firms for referral of SMSF audit engagements. It is important that these arrangements are subject to regular rotation to maintain independence and avoid self-interest, familiarity and intimidation threats. Your engagement should be directly with the SMSF Trustee not via an agency with the referring practitioner.~~a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.~~

[222] Issued June 2010: amended 2011, 2013, 2017, April 2018 ~~and~~ – (compiled November 201~~3~~8) with effect from January 2020.

[223] In addition to these examples, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide*, ~~Fourth~~ Fifth Edition, ~~February 2013~~2020.

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Scenario	Type of threat: Self interest	Self-review	Advocacy	Familiarity	Intimidation	Appropriate safeguards
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. ~~Common staff work on both engagements.~~ The preparation of the financial statements is considered "routine and mechanical in nature".	X	X			X	Routine and mechanical in nature would apply in situations where the accountant does not need to exercise professional judgement. Examples include; where the SMSF's investments are relatively straightforward (listed shares and term deposits for example) or, where the SMSF trustee prepares the trial balance. 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 the accounting work performed by the firm and disclosing to the trustees the firm's involvement in both engagements.
7. A two partner practice in which one partner prepares the SMSF's accounts and the other partner conducts the audit. The preparation of the financial statements IS NOT considered to be routine and mechanical in nature	X	X			X	No safeguards are available which would enable the practitioner to perform audit work, as this involves a clear self-review threat. The auditor would not undertake the audit engagement.
~~6.~~8. 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.
~~7.~~9. A firm prepares the SMSF's annual return and also undertakes the audit of the SMSF.		X				Where the client takes responsibility for the SMSF annual return including any significant judgements, it will not generally create threats to independence.
~~8.~~10. 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	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.

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	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
practitioner is very reliant on fees generated by referrals from the service provider.						
~~9.~~11. 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.
~~10.~~12. 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.
~~11.~~13. 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.
~~12.~~14. A practitioner or firm providing administrative services to numerous SMSFs, outsources all of the SMSF audits to one approved SMSF auditor.		X				The practitioner has implemented appropriate safeguards to avoid a self-review threat by referring the audit work to another auditor and it is the responsibility of that auditor to ensure that they are not as reliant on the referrals from the practitioner as to create a self-interest or intimidation threat.
15. Reciprocal auditing arrangements - Two Auditors who audit each other's SMSF - Two Accountants, also Auditors, audit each other's book of SMSFs	X			X	X	ATO and ASIC consider no safeguards can be put in place to eliminate independence threats in relation to a reciprocal auditing arrangements where two auditors audit each other's SMSF. See ATO Guidance. Safeguards for reciprocal audit arrangements involving two accountants who are also auditors could include ending the reciprocal arrangement or, spreading their referrals across a range of practitioners as well as being subject to frequent rotation, to limit independence threats. See ATO Guidance
16. Family relationships between Auditor and Accountant who conduct separate practices.	X			X	X	The family relationship may compromise the auditor's objectivity when conducting the SMSF audit and self-interest, familiarity and intimidation threats may be present. The Practitioners need to assess their ability to maintain independence in their respective engagements and document their self-assessment thoroughly.

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	Type of threat					
Scenario	**Self interest**	**Self-review**	**Advocacy**	**Familiarity**	**Intimidation**	**Appropriate safeguards**
						Safeguards may include ensuring direct engagement with the SMSF trustee including billing and not limiting audit sampling for each SMSF that is a client of the relative's firm. The ~~a~~Auditor would find it more difficult to prove their independence if all the SMSF audits were generated by referral from the relative's firm. Having a ~~more~~ broader audit client book would provide some mitigation from the independence threat.

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Australian Government
Auditing and Assurance Standards Board

AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**6.0**
Meeting Date:	21 April 2020
Subject:	Guidance Statement Revision Project
Date Prepared:	9 April 2020
Prepared By:	See Wen Ewe

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda Item Objectives

1. To provide an update to, and receive feedback from, the AUASB on the survey results from the Guidance Statements Revision Project.

Background

2. At the September 2019 AUASB Meeting, the AUASB was presented with a Guidance Statements Revision Discussion Paper which:

   (a) Outlined an initial review of existing AUASB Guidance Statements (GS's) undertaken by AUASB Technical Group (ATG); and

   (b) Contained questions designed to obtain detailed responses from stakeholders regarding which GS's need to be prioritised for update by the AUASB. For more details on the Discussion Paper, please refer to Agenda Item 5.4.1 of the September 2019 board papers.

3. A survey was developed to complement the Discussion Paper, and both were distributed to stakeholders for feedback in October 2019. The Discussion Paper was emailed directly to targeted stakeholders and assurance professionals, as well as regulators who determine the legislative or regulatory requirements which determine the scope and content of certain GS's. The survey was attached as a link in the Discussion Paper and distributed via the AUASB's September 2019 newsletter.

4. The ATG has actively promoted this project via several LinkedIn posts and follow up emails to the stakeholders.

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Results/Findings

Written Responses from Stakeholders

5. Six written responses were received from APESB, APRA, CA ANZ, CPA Australia, ACNC and PwC. Please refer to the details below:

Guidance Statements to be updated – Written responses	No. of respondents
GS 009 *Auditing Self-Managed Superannuation Funds*	3
GS 022 *Grant Acquittals and Multi-Scope Engagements*	2
GS 012 *Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions*	1
GS 004 *Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups*	1
GS 017 *Audit Implications for Prudential Reporting Requirements of a Life Company*	1
GS 016 *Bank Confirmation Requests*	1
GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*	1
GS 011 *Third Party Access to Audit Working Papers*	1
GS 006 *Electronic Publication of the Auditor's Report*	1

6. From the table above, for two of the nine GSs mentioned projects to update these pronouncements are currently in progress (GS 009 and GS 012).

7. Three out of six respondents suggested the AUASB develop new GS's covering Technology or Data Analytics related guidance. AUASB members should note this is already being addressed by the ATG through work of the Technology Project Advisory Group (PAG). Other suggestions for new GSs the AUASB could develop are as follows:

New Guidance Statements to be developed:	No. of respondents
Technology / Data Analytics	3
Private Health Insurance	1
Audit Quality for Not-for-Profit sector	1
Management Commentary and Service Performance Reporting in the Not-for-Profit sector	1
Cryptocurrency related activities	1

8. One respondent suggested that GS 022 should be divided into 2 separate GSs:

   (a) Grant Acquittals

   (b) Multi-Scope Engagements

Survey Responses

9. Eighteen responses were received, out of which eleven were assurance practitioners (61%) and two were professional bodies (11%). Other stakeholders who responded include regulators, public sector, academics, technical consultant and advisors.

10. A weighted average method was used to analyse the priorities of the GSs to be updated. Based on this analysis, the top five GSs survey respondents wants the AUASB to update are as follows:

    (a) GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*

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(b) GS 022 *Grant Acquittals and Multi-Scope Engagements*

(c) GS 016 *Bank Confirmation Requests*

(d) GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001*

(e) GS 010 *Responding to Questions at an Annual General Meeting*

For the full analysis of responses to the survey please refer to Appendix 1.

11. As for new GSs to be developed, numerous respondents suggest different areas of interests. Please refer to the table below for the number of respondents and their respective areas of interests. AUASB members will note no strong trend indicating there are significant areas where stakeholders have requested the AUASB to create new GS's, and that a number of the topics survey respondents highlighted are already being addressed by other current AUASB projects.

New Guidance Statements to be developed:	No. of respondents
Real Estate Trust Accounts	2
Technology	1
Law and Regulations	1
Goodwill and Impairment	1
Credit Risk and Impairment	1
Less Complex Entities	1
Self-Managed Super Funds	1
Queensland Building and Construction Commission – audit and review of relevant entities in Queensland	1
Coal mining Long Service Leave scheme	1
Franchising – audit of marketing or advertising funds	1
Application of AASB 1058 & AASB 16 for peppercorn leases.	1

12. In terms of GSs to be withdrawn, the ATG suggested GS 014 *Auditing Mortgage Schemes* and GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* to be withdrawn.

13. Eleven out of thirteen respondents agreed with the ATG's suggestion that GS 014 should be withdrawn, and eight out of eleven respondents agreed that GS 021 should be withdrawn. The remaining respondents did not provide a response to this question.

14. Respondents who disagreed on the withdrawal of GS 014 did not provide specific reasons.

15. Two out of three respondents who disagreed on the withdrawal of GS 021 noted that the GS is still relevant and should be updated. One of them suggested that the GS should refer to other guidance from Clean Energy Regulator and be updated to reflect assurance engagements relevant to the sector and where areas are highly technical. The other respondent suggested that the GS should set expectations of auditors and influence regulator's guidance.

ATG Recommendations for the AUASB

16. Taking into account of both written submissions and survey responses, the ATG would like to propose the following GSs to be withdrawn or updated as a matter of priority.

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(a) GSs to be withdrawn:

   (i) GS 014 *Auditing Mortgage Schemes*

   (ii) GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes*

(b) GSs to be updated:

   (i) GS 003 *Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001* – NB: The AUASB has also received correspondence directly from the ASX requesting this GS to be updated.

   (ii) GS 022 *Grant Acquittals and Multi-Scope Engagements*

   (iii) GS 019 *Auditing Fundraising Revenue of Not-for-Profit Entities*

   (iv) GS 016 *Bank Confirmation Requests*

   (v) GS 010 *Responding to Questions at an Annual General Meeting*

Questions for the AUASB

1. Do the AUASB support the recommendations of the ATG about which AUASB Guidance Statements require update and withdrawal described above?

2. Does the AUASB have any other comments on the analysis of the responses to the Guidance Statement Discussion Paper provided above?

Way Forward

17. The ATG will continue its work updating the various AUASB Guidance Statements which has already commenced (i.e. GS 005, GS 008, GS 009 & GS 012).

18. Other AUASB Guidance Statements identified as priorities for update or withdrawal at the April 2020 AUASB meeting will be included in the AUASB 2020-21 Technical Work Program.

Material Presented

Agenda Item 6.0	AUASB BMSP Guidance Statement Revision Plan

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Appendix 1

	The 1st priority	The 2nd priority	The 3rd priority	The 4th priority	The 5th priority	Weighted Average
GS 019 Auditing Fundraising Revenue of Not-for-Profit Entities	33.33%	6.25%	7.14%	9.09%	0.00%	**2.3125**
GS 022 Grant Acquittals and Multi-Scope Engagements	5.56%	37.50%	14.29%	0.00%	9.09%	**2.2976**
GS 016 Bank Confirmation Requests	27.78%	12.50%	0.00%	9.09%	9.09%	**2.1617**
GS 003 Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001	5.56%	6.25%	14.29%	9.09%	18.18%	**1.3203**
GS 010 Responding to Questions at an Annual General Meeting	0.00%	0.00%	35.71%	9.09%	0.00%	**1.2531**
GS 013 Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes	11.11%	6.25%	7.14%	0.00%	0.00%	**1.0197**
GS 020 Special Considerations in Auditing Financial Instruments	0.00%	12.50%	7.14%	9.09%	0.00%	**0.896**
GS 002 Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities	0.00%	12.50%	0.00%	9.09%	9.09%	**0.7727**
GS 011 Third Party Access to Audit Working Papers	5.56%	0.00%	0.00%	18.18%	9.09%	**0.7325**
GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services	5.56%	6.25%	0.00%	0.00%	0.00%	**0.528**
GS 018 Franchising Code of Conduct – Auditor's Reports	0.00%	0.00%	0.00%	18.18%	9.09%	**0.4545**
GS 021 Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Sc	0.00%	0.00%	7.14%	0.00%	9.09%	**0.3051**
GS 014 Auditing Mortgage Schemes	5.56%	0.00%	0.00%	0.00%	0.00%	**0.278**
GS 015 Audit Implications of Accounting for Investments in Associates	0.00%	0.00%	7.14%	0.00%	0.00%	**0.2142**
GS 004 Audit Implications of Prudential Reporting Requirements for General Insurers and Insurance Groups	0.00%	0.00%	0.00%	0.00%	0.00%	**0**
GS 017 Audit Implications for Prudential Reporting Requirements of a Life Company	0.00%	0.00%	0.00%	0.00%	0.00%	**0**

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Australian Government
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AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**7.0**
Meeting Date:	21 April 2020
Subject:	Assurance Framework Publications
Date Prepared:	14 April 2020

[X] **Action Required** [ ] **For Information Purposes Only**

Agenda Item Objectives

1. The objective of this agenda item is to present the revised draft of the AUASB proposed assurance framework publications for assurance prescribers and to obtain feedback on whether the publication has broadly addressed comments made by the AUASB at the December 2019 AUASB Meeting.

2. The AUASB is asked to respond to questions 1-3 below.

Background

3. At the December 2019 AUASB Meeting, the AUASB Technical Group (ATG) presented to the Board the initial drafts of Assurance Framework Publications 1 and 2 for comment.

4. The AUASB provided feedback to the ATG largely on draft Publication 1 covering assurance basics. The feedback included examples to assist with explaining concepts to intended users such as the difference in the auditor's responsibilities for an audit and a review.

5. Whilst the main focus when this item was first presented to the AUASB was on *Publication 1 – Assurance Basics*, the Financial Report Council (FRC) Chair has requested *Publication 2 – Guide for Assurance Prescribers* to be published as soon as possible to support the FRC's overall framework project.

6. As outlined at the December 2019 AUASB Meeting, *Publication 2 – Guide for Assurance Prescribers* is intended to be a guide for assurance 'prescribers' to assist with drafting effective assurance requirements. It largely follows the format of the NZAuASB's equivalent publication and the Department of Finance's Resource Management Guide 210 Clarification of the terms 'Audit' and 'Assurance'.

7. Publication 1 will continue to be worked on by the ATG and brought back to the AUASB at a future meeting. In addition to this, the ATG will commence drafting Assurance Framework Publication 3 which is aimed at improving the understanding of the other credibility enhancing engagements that

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can be undertaken under the suite of AUASB standards using real-life examples including, cyber security assurance, engagements over culture, modern-slavery statements and climate change.

Matters to Consider

8. Since the December 2019 AUASB Meeting, the ATG have made a number of changes to Publication including:

   (a) clarifying what makes a subject matter appropriate.

   (b) including the characteristics of suitable criteria.

   (c) improving the tips for drafting assurance requirements.

9. The ATG plans to include a section redrafting examples of poorly written assurance requirements.

Questions

1. Do AUASB Members consider that any relevant areas have not been addressed by the publication?
2. Are there specific examples that should be included in the publication not already considered?
3. Do AUASB Members have examples of poorly written assurance requirements they would like included in the publication?

10. As outlined at the December 2019 AUASB Meeting, the AUASB is not required to approve the publications but they will be sent to AUASB Members for fatal flaw review. The publications will then be approved for issue subsequent to review by the AUASB Technical Director and AUASB Chair.

Material Presented

Agenda Item 7.0	AUASB BMSP Assurance Framework Publications
Agenda Item 7.1	(Draft) Assurance Framework Publication 2

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Respond to questions	Feedback to ATG	AUASB	21 April 2020	

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Publication 2 – Guide for Assurance Prescribers

Who is this publication for?

Assurance is an important tool which can be used to independently enhance the credibility of information and increase the confidence of intended users in that information.

To be effective, it is essential that assurance requirements are drafted clearly. Unclear assurance requirements or assurance over subject matters not able to be assured (or difficult to be assured) can create significant issues for the assurance practitioner being asked to provide assurance and the organisation which is having to organise and pay for the assurance.

This guide is intended to assist legislators, grant givers, regulators and others who mandate assurance to draft requirements which are clear and therefore effective. Throughout this guide, **Assurance Prescriber** is the term used to describe this group

This guide will take an assurance prescriber through the relevant questions they should cover when drafting these requirements. It will cover 4 main areas:

- What do you want assurance over and why?
- What level of assurance will meet your needs?
- Who do you want to perform the engagement?
- Tips for drafting assurance requirements, including:
    - Multi-scope engagements; and
    - Prescribing your own assurance report.

You will find this guide helpful when:

- New legislation is being proposed and/or exiting legislation is being revised or clarified where an assurance engagement will be a requirement.
- You are drafting documentation when an assurance engagement is required.

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What do you want assurance over and why?

An assurance engagement is concerned with obtaining sufficient appropriate evidence to enhance the confidence of users (other than management) about the measurement or evaluation of a subject matter against criteria.

What is common between all the different types of assurance engagements, whether it be an audit of a financial report or assurance over a Greenhouse Gas emission statement, is that they meet the basic preconditions for an assurance engagement[1], that is they have:

- An appropriate subject-matter;
- Criteria to assess the subject-matter against; and
- Intended users.

To draft clear and effective assurance requirements it is important to have a clear understanding of each of the preconditions. However, before even commencing drafting it is important to establish **what you want assurance over and why**. When answering this you should consider:

- Why does the information (subject-matter) need to have independent credibility?
  - Who are the users of this information, will their expectations be met through having assurance?
  - Does the benefit of assurance outweigh the cost?
- Can the subject-matter be assured?
  - Is the subject-matter appropriate?
  - Are there suitable criteria to asses the subject-matter?

Why is assurance needed?

Before mandating assurance it is important to consider why assurance is necessary. Generally, assurance is prescribed to establish a level of trust and confidence over specified information.

When considering whether assurance is necessary there needs to be a clear reason why and a linkage with benefits, assurance should not be the default position. As part of this decision-making process it is important to consider:

- Who are the intended users and how will they benefit from assurance?

  The intended users are the individual(s) or organisation(s), or group(s) that the assurance practitioner expects will use the assurance report. The party preparing the information to be assured can be one of the intended users, but not the only one.

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[1] See *Framework for Assurance Engagements.*

- Do the perceived benefits to the users outweigh the cost to the entity having to arrange the assurance engagement?

  Assurance engagements in Australia are generally carried out by a professional practitioner who complies with the AUASB's standards.

  The standards issued by the AUASB apply to engagements irrespective of their size and complexity and a number of procedures are required to be performed irrespective of the size and complexity of the entity.

  For example, an audit of a financial report of a near dormant entity which has no assets and liabilities will still require procedures to be performed such as establishing the preconditions for an audit engagement exist and obtaining an understanding of the entity and its environment. Even for engagements where the entity has a $0 balance sheet, the auditor will still need to design and perform procedures to obtain sufficient appropriate evidence to be able to conclude that the balance sheet should indeed be $0.

Example – Audit of an Annual Report under the *Corporations Act 2001*

Under the *Corporations Act 2001*, Public Companies must prepare and have audited an annual financial report. The Financial Report (subject-matter) must be prepared in accordance with the requirements of the *Corporations Act 2001* (criteria) and audited in accordance with the Auditing Standards issued by the AUASB.

Who are the intended users?

Financial report users include current and potential investors (shareholders), suppliers, customers, lenders, employees, regulators and the general public. For each of these groups, the financial report provides them with information to assist with decision making.

Do the perceived benefits outweigh the cost?

The audit provides benefits to a wide range of users and allows them to increase the degree of confidence with which they can rely on the Financial Report as part of their decision-making process. For investors, this may be their main source of financial information to make investment decisions on. In this case, the cost to the entity obtaining the assurance is outweighed by the perceived benefits to the wide range of users.

Subject Matter – What do you want assurance over?

Under the standards issued by the AUASB, a range of subject matters both financial and non-financial can be assured. Different subject matters have different characteristics, including qualitative or quantitative, objective or subjective, historical or prospective, relating to a point in time or a period.

Example Engagement	**Example Subject Matter**	**Example Criteria**
Audit of a complete set of Financial Statements.	Financial Statements.	Preparation in accordance with Australian Accounting Standards
Assurance on Green House Gas emissions statement forming part of a Sustainability Report.	Green House Gas Emissions statement.	Preparation of the statement in accordance with the *National Greenhouse and Energy Reporting (NGER) Act 2007.*
Report on implementation of the controls as designed and/or operating effectiveness of controls as designed.	Selected controls.	Operating effectiveness in accordance with design.
Assurance on an entity's compliance with loan covenants.	Statement prepared by the entity outlining its compliance.	Loan covenants outlined in loan documentation.
Assurance on whether Prospective Financial Information has been prepared in accordance with the Stated Basis of Preparation and Assumptions.	Prospective financial information.	Stated Basis of Preparation and assumptions described.

Whilst there are a range of subject-matters which can be assured, it is also equally important to understand what makes a subject-matter inappropriate and therefore unable to be assured.

Before mandating assurance, it is important to establish:

- Is my subject matter identifiable and capable of consistent measurements?
- Can evidence be obtained to support that subject matter?
- Are the criteria to assess the subject matter suitable?

Is the subject matter appropriate?

An appropriate subject matter is identifiable and capable of consistent measurement or evaluation against criteria. The subject matter must also be able to be subjected to procedures to obtain sufficient appropriate evidence to support a conclusion.

Generally, issues arise in assurance engagements where a subject-matter is not appropriate or the criteria against which the subject matter is measured or evaluated is not suitable.

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Prospective financial information provides a useful example to demonstrate this. Prospective financial information refers to financial information which is future orientated such as forecasts and projections.

Due to the inherent uncertainties in projections and forecasts an assurance practitioner cannot provide any assurance that a forecast or projection will occur. In particular, sufficient appropriate evidence cannot be obtained to support a conclusion that the forecast or projection will occur as it is based on events and actions that have not occurred or may not occur at all.

Whilst assurance cannot be obtained over the end result of a forecast, assurance can be obtained on whether the assumptions used in the forecast provide reasonable grounds for the preparation of the forecast. The assumptions used in the forecast are identifiable and capable of measurement and evidence can be obtained to support whether there are reasonable grounds for the use of the assumptions in the forecast.

Example – Unclear subject matter – Cashflow forecast

Growth Pty Ltd is an established transportation business in operation for the last 15 years and is seeking to replace its current debt facility. Growth Pty Ltd has approached Big Bank who will provide the facility. One of the requirements of the facility is that at the start of every quarter a 12month cashflow forecast is provided to Big Bank, a template and basis of preparation have been provided to Growth Pty Ltd. Under the conditions of the agreement, that forecast must be assured.

Growth Pty Ltd have approached AAA Partners to undertake the engagement and assure the forecast.

In a meeting between Growth Pty Ltd and AAA Partners to discuss the engagement, AAA Partners outlined that they are unable under the AUASB Standards to provide assurance over the outcome of the forecast but can provide assurance over the assumptions used in the forecast.

Growth Pty Ltd argues that assurance over the assumptions will not be sufficient for their purposes as the agreement they signed requires the “forecast to be assured”. No guidance about the assurance of the forecast is provided in the agreement.

Growth Pty Ltd decides to approach 3 other firms over the next month to see whether they will assure the forecast inline with the agreement. All the practitioners approached say the same thing as AAA Partners and will only provide assurance over the assumptions.

Growth Pty Ltd is now in a position where it is concerned that it will not meet the conditions of the debt facility and have the facility withdrawn.

Are the criteria suitable?

In an assurance engagement, criteria are the benchmarks used to measure or evaluate the subject matter. Criteria can be formal, for example in the preparation of financial statements, the criteria may be Australian Accounting Standards. Criteria can also be information for example an internally developed code of conduct.

Suitable criteria are required for reasonably consistent measurement or evaluation of a subject matter. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. This creates significant issues for the assurance practitioner being asked to assess a subject matter against the unsuitable criteria and importantly results in assurance engagements which cannot meet the needs of intended users.

Under the AUASB's *Framework for Assurance Engagements, s*uitable criteria exhibit the following characteristics:

- Relevance – Criteria are relevant to the intended users and assists their decision-making.
- Completeness – Criteria are complete when information prepared in accordance with them do not omit relevant factors that could reasonably be expected to affect decisions of the intended users. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- Reliability – Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different assurance practitioners.
- Neutrality – Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
- Understandability – Understandable criteria result in subject matter information that can be understood by the intended users.

Criteria also need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated.

Example of unsuitable criteria
PLACEHOLDER FOR EXAMPLE.

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What level of assurance is required?

Under the AUASB Standards, no engagement can provide absolute assurance about a subject matter. Instead, assurance levels under the AUASB standards can be broadly be broken down into:

- Reasonable assurance
    - A high but not absolute form of assurance which generally involves detailed testing, evidence gathering and substantiation to support the assurance practitioner's opinion.
- Limited
    - A level of assurance greater than no assurance but less than reasonable assurance which generally involves analytical procedures and enquiries of management with less detailed procedures conducted.
- No assurance (report on factual findings).
    - Performance of procedures of an assurance nature from which no conclusion or opinion is expressed and no assurance is provided to intended users

Picking the right level of assurance is a balance between the level of confidence required and the cost/burden on the entity that is required to obtain the assurance.

It is important to understand that an assurance engagement does not consider every single component of the underlying subject matter information. Instead, assurance practitioners express their opinions (in reasonable assurance engagements) or their conclusion (in limited assurance engagements) in relation to information that is **material** to the intended users.

Information is material if its misstatement, including omissions, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.

It is important that the wording used to mandate an assurance requirement reflects that materiality is a key part of an assurance engagement and does not imply a level of assurance higher than reasonable.

For example, the term **Certify** can imply that the entire subject matter is in accordance with the applicable criteria.

Do I always need reasonable assurance?

Reasonable assurance is generally used as it is the most widely understood. Whilst reasonable assurance may be appropriate in a number of situations, it may not be appropriate in all situations.

It is important as an assurance prescribers to consider whether a reasonable assurance engagement is 'value for money' and does not imposes onerous requirements on entities.

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If you understand the needs of the intended users of the information, it will be relatively straight forward to determine what level of assurance is suitable for their needs.

Note: Not all subject matters are able to have reasonable assurance over them. For example, an assurance practitioner is only able to provide limited assurance on whether assumptions used in prospective financial information provide reasonable grounds for the preparation of the prospective financial information.

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Who do you want performing the engagement?

The credibility of the practitioner undertaking an engagement is an important factor to address when prescribing assurance requirements.

In Australia, there are a number of levels of qualifications available to assurance prescribers. Like when determining the appropriate level of assurance it is important that assurance prescribers consider the qualifications required to meet the intended user's needs.

Options available in Australia.

Registered company auditor

Under the *Corporations Act 2001,* only a Registered Company Auditor (RCA) is able to perform audits and reviews (some exceptions apply).

In order to be a Registered Company Auditor (RCA) in Australia, an individual (or company) must have relevant qualifications, appropriate skills, and be a capable, fit and proper person (s1280 *Corporations Act 2001*).

The Australian Securities and Investments Commission is responsible for assessing and registering RCAs as well as any

ASIC has responsibility for the surveillance, investigation and enforcement of the financial reporting and auditing requirements of the *Corporations Act 2001* and conducts regular audit inspections and surveillances. In undertaking reviews if ASIC find an RCA's conduct to be deficient, they may:

- impose or vary conditions on the auditor's registration;
- agree to an enforceable undertaking; or
- refer the matter to the Companies Auditors and Liquidators Disciplinary Board.

Public Practice Certification

Generally, any member of one of the accounting professional bodies who offers professional accounting and/or related services to the public is required to hold a Public Practice Certification (PPC) under their professional body's by-laws.

A PPC is required for a Sole Trader, Director, Principal, Partner or Shareholder in an accounting or related practice. Services which require a PPC are not limited to auditing and include:

- Accounting;
- Tax advice; or
- Insolvency and bankruptcy.

To be granted a PPC, the practitioner must:

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- Demonstrate that they have the required practical experience;
- Hold appropriate professional indemnity insurance; and
- Agree to comply with the Professional Body’s quality review program.

Member of a professional body

Members of a Professional Accounting Body in Australia are bound by the Standards issued by the Accounting Professional & Ethical Standards Board (APESB).

The Code of Ethics for Professional Accountants establishes a number of requirements for practitioners undertaking assurance engagements including:

- Professional competence and due care; and
- Independence.

APES 210 requires practitioners, when undertaking an assurance engagement, to comply with the auditing and assurance standards issued by the AUASB.

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Drafting Assurance Requirements

Appropriate terminology

A key challenge in prescribing assurance requirements is the use of correct terminology. The use of incorrect terminology can create significant difficulties for the assurance practitioner and the organisation requiring the assurance.

Occasionally, the terms audit and assurance are used in a way that is inconsistent between the level of assurance that is needed, the level of assurance that is requested and the level of assurance that is provided.

Terms not to be used

- **Verification** – Verification is not a term used in the suite of AUASB standards and creates some confusion as to what level of assurance it is implying. In some instances the term has been used in connection with engagements that, under the AUASB's assurance framework would be regarded as being of an agreed-upon procedures nature.

- **Certify** – The term certify can often imply 100% assurance over a subject-matter. As outlined above, the highest level of assurance under the AUASB's framework is reasonable assurance, which is high but not absolute assurance.

- **Attest** – The term can be confusing for assurance practitioners as under the AUASB's framework, engagements are described as either an attestation or direct engagement.

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Prescribed reports

Assurance prescribers may require assurance practitioners to provide their opinion in accordance with the format outlined in the AUASB Standards or a specific layout or wording determined by the assurance prescriber. For example, a regulator may require an entity to complete a specific template prepared by the regulator which states the entity has complied with sections X-Y of the relevant legislation. The template also includes a section for the assurance practitioner to make their attestation/declaration.

When prescribing your own report/form it is important to be aware that there are minimum requirements that must be on the report/form for the assurance practitioner to be able to provide an opinion under the AUASB's standards using the prescriber report/form. These include:

- An Opinion section containing an expression of opinion on the subject-matter and a reference to the applicable criteria used to prepare the subject-matter.
- A description of management's responsibilities for the preparation of the subject-matter and an identification of those responsible for the oversight of the reporting process.
- A reference to the relevant AUASB Standards and the law or regulation, and a description of the assurance practitioner's responsibilities.

Can I request assurance over more than one subject-matter in my report?

Yes – These are called multi-scope engagements. Whilst it is possible to have assurance over multiple subject matter in the same engagement it is important to be sufficiently clear in drafting the assurance requirement:

- each different subject-matter.
- the criteria applicable for each subject-matter.
- the level of assurance required for each subject-matter.

When drafting your report to be used it is important to remember that the audit/assurance opinion covers the subject matter as a whole, not individual pieces of each audit/assurance engagement.

The audit/assurance report is also not a 'checklist' which provides an 'answer' to every element of the suitable criteria the client is required to comply with. Accordingly when the scope of the auditors/assurance practitioners report extends across discrete elements of subject matter (e.g. assurance over the financial statements, as well as assurance over the compliance with a regulatory requirement) then the audit/assurance report must clearly separate these to reflect the different scope and , in some cases, level of assurance being provided, and the audit/assurance opinion states whether or not, as a whole, the client has complied with the relevant criteria for each element.

What happens if the assurance practitioner communicates that the report I prescribe is not appropriate?

Prescribed auditor's reports vary significantly in both form and content. These differences arise for a number of reasons, including: the circumstances of the engagement, the specific requirements of the party prescribing the auditor's reports and continued use of historical forms.

In most cases, prescribed reports do not present problems for auditors if they meet the minimum requires of the AUASB's standards. However, assurance practitioners may be faced with significant difficulties when required to report in a prescribed way which does not meet the minimum requirements. Issues for assurance practitioners arise due to:

- Inconsistencies with the requirements of the AUASB Standards and the underlying frameworks, terminologies and concepts upon which those Standards are based.
- Requirements that contravene an auditor's professional obligations and compliance with applicable ethical standards, especially those relating to "independence".
- Single-form reports that inadequately combine differing subject matters and differing frameworks/criteria.
- Wording that would result in misleading information.
- Wording that does not provide the user with the assurance they seek.

If you are unsure about the form or content of your report, contact the AUASB.

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**8**
Meeting Date:	21 April 2020
Subject:	Removal of Special Purpose Reporting – Discussion
Date Prepared:	14 April 2020
Prepared by:	Matthew Zappulla

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda Item Objectives

Discuss and inform the AUASB Audit Technical Group (ATG) about the AUASB's response to inform Auditors about the AASB's Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities.

Background

1. The AUASB first discussed its response to AASB proposals to remove the ability for certain 'for-profit' entities to prepare Special Purpose Financial Statements (SPFS) at the June 2019 AUASB meeting.

2. A further update and initial proposals for the AUASB response to this issue were discussed at the AUASB's December 2019 meeting, where the AUASB received an update from the AASB Chair and ATG on the AASB's proposals to remove the ability for certain for-profit private sector entities to publicly lodge special purpose financial statements, as outlined in the AASB's Exposure Drafts on this issue. The AUASB discussed the implications for auditors arising from the proposals in these AASB ED's and agreed to issue guidance to auditors when the proposals are finalised, including to consider if an Emphasis of Matter is required in the auditor's report to alert users to any change to an entity's financial reporting framework.

3. At its March 2020 meeting the AASB confirmed its arrangements which now mean that various 'for-profit' private sector entities will no longer be able to prepare SPFS for reporting periods beginning on or after 1 July 2021. Transitional relief from restating comparative information is available if an entity chooses to apply the requirements early, as the AASB decided to not require an entity to distinguish the correction of prior period errors from changes in accounting policies in the year of transition as a practical expedient to achieve consistent, comparable, transparent and enforceable financial reporting in a timely manner.

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4. As background for AUASB members a copy of the AASB Fact Sheet describing these changes in more detail is included at **Agenda Item 8.1**. A full copy of the relevant AASB Amending Standard is available here on the AASB Website.

Matters to Consider

5. At the December AUASB Meeting the ATG recommended a number of actions are undertaken in relation to the AASB's then proposals to remove SPFS for certain 'for-profit' entities. At the time the AUASB supported these proposals but agreed to review the proposals subsequent to the AASB's revised arrangements being finalised.

6. Based on the finalisation of the AASB's arrangements to remove SPFS for certain 'for-profit' entities in March 2020 the ATG proposes the following actions by the AUASB:

   - Issuing a new and revised AUASB Bulletin addressing the Auditor's responsibilities and the Financial Reporting Framework (replacing the current version on the AUASB Website originally published in July 2019)

   - Updating ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks to reflect the new AASB requirements

   - Working with the AASB to develop and communicate appropriate guidance for Auditors in relation to these changes. This is likely to be held from May 2020 onwards.

7. At the December 2019 AUASB meeting the potential for auditors to have to include modifications to audit reports for entities transitioning from a SPFS framework to the revised SDS framework was discussed. The ATG staff have worked closely with the AASB staff to ensure the proposals approved by the AASB limited the likelihood of this occurring. In particular, the transitional arrangements the AASB has included in its amending standard, in the ATG's view, decrease the likelihood modifications to audit reports being necessary.

AUASB Technical Group Recommendations

1. AUASB Members are requested to:

   (a) Provide feedback to the ATG on the proposed actions by the AUASB in response to the AASB's removal of SPFS for certain 'for-profit' entities.

   (b) Whether there are any additional actions to AUASB should undertake to support auditors through this change.

Material Presented

Agenda Item 8.0	AUASB Board Meeting Summary Paper
Agenda Item 8.1	AASB Key Fact Document on Removal of SPFS

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Key facts: AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*

What is changing?

- From 1 July 2021, **the for-profit private sector entities listed below** (see 'who is affected') will no longer be able to self-assess financial reporting requirements and prepare special purpose financial statements (SPFS).
- They will prepare, as a minimum, Tier 2 general purpose financial statements (GPFS) that comply with all recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS). To reduce any transition burden, the AASB has issued:
  - a new Tier 2 GPFS framework – see AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities*, based on IFRS for SMEs with less disclosures than the current Tier 2 GPFS framework.
  - transitional relief, including relief from restating comparative information, for entities that choose to early adopt the requirements (ie. before 1 July 2021).

Why did we do this?

To create a simple, objective, consistent, comparable, transparent and enforceable financial reporting framework

- SPFS is a longstanding area of concern to the AASB and other regulators:
  - SPFS lack transparency, consistency, comparability, enforceability;
  - not simple or objective to determine reporting requirements under current reporting framework;
  - increased risk for directors and auditors due to subjective nature of self-assessment of reporting requirements;
  - evidence of non-compliance with SAC 1 *Definition of the Reporting Entity* and RG 85 *Reporting requirements for non-reporting entities*;
  - evidence that users exist and that they want comparability of recognition and measurement;
  - scrutiny in public enquiries, including those for tax avoidance and the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the regulation of auditing in Australia.
- New IASB *Conceptual Framework for Financial Reporting* has a different reporting entity concept to SAC 1 → 'reporting entity clash'.
- The increase in large proprietary thresholds target reporting requirements to entities with economic significance → these entities should not be preparing SPFS.

Who is affected?

For- profit companies preparing financial statements under the *Corporations Act 2001*, principally:

- large proprietary companies (including grandfathered companies);
- unlisted public companies;
- small foreign-controlled companies;
- financial services licensees; and
- small proprietary companies with crowd-sourced funding.

Other for-profit:

- private sector entities required by legislation to prepare financial statements that comply with either AAS or accounting standards (e.g. co-operatives and incorporated associations and higher education providers);
- entities whose constituting document or another document requires the preparation of financial statements that comply with AAS, **IF** created or amended in any way, on or after 1 July 2021 (e.g. private sector trusts, partnerships, self-managed superannuation funds and joint arrangements); and
- entities (both private and public sector) that elect to prepare GPFS (e.g. for-profit public sector entities or other for-profit private sector entities).

Based on the AASB's research,[1] approximately 7,295 entities lodging financial statements with ASIC would be affected, after the increase in the large proprietary thresholds. In addition, there is a small number of grandfathered large proprietary companies and entities with other legislative requirements that may also be affected, however the AASB was not able to quantify exactly how many.

[1] AASB Research Report No. 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements*

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Who is not affected?

- ✗ Small proprietary companies (unless foreign controlled);
- ✗ Not-for-profit entities as their financial reporting framework will be considered via separate targeted consultations;
- ✗ For-profit public sector entities (unless they elect otherwise);
- ✗ Entities whose constituting document or another document requires the preparation of financial statements that comply with AAS if created or amended before 1 July 2021 (such as trusts);
- ✗ Entities preparing:
  - financial statements that give a true and fair view without reference to compliance with AAS or accounting standards such as gaming venue operators or internet gaming licensees; or
  - financial information but not required to prepare financial statements as defined in paragraph 10 of AASB 101 *Presentation of Financial Statements* such as friendly societies, superannuation funds, retirement villages, incorporated associations, housing societies; and
- ✗ Entities required only by their constituting or other document to prepare financial statements that comply with "accounting standards", "generally accepted accounting practices or principles" or other terminology that is not specifically AAS.

As a consequence of the deferral of the effective date and also due to the fact that there is likely to be a number of for-profit entities that will continue to be able to prepare SPFS in compliance with AAS, the Board decided that these entities should be required to disclose a statement of compliance, or otherwise, with the R&M requirements in AAS (including requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*). This is to address the lack of transparency in SPFS that continue to refer to AAS. This disclosure will also apply to those entities that are in scope (see 'who is affected') that elect not to early adopt the new requirements. This will be addressed as part of a separate project.

Transitional relief

- Transitional relief in addition to the existing relief currently available in AASB 1 or AASB 10, is available where an entity elects to early adopt AASB 2020-2. The additional relief in AASB 2020-2:
  - provides relief from restating comparative information in the year of transition;
  - provides relief for entities that have complied with all R&M requirements in previous SPFS from presenting comparative information for those disclosures that they had not previously made; and
  - changes the date of transition to the beginning of the reporting period, rather than the beginning of the earliest comparative period.
- AASB 2020-2 also does not require an entity to distinguish the correction of prior period errors from changes in accounting policies in the year of transition, provided an entity adopts the Standard no later than the first year it becomes mandatory (ie a period beginning prior to 1 July 2022).

<table>
<tr><th></th><th colspan="2">30 June 2021[#] year end</th><th colspan="2">31 December 2021[#] year end</th><th>30 June 2022 / 31 December 2022</th><th>30 June 2023 onwards</th></tr>
<tr><td></td><td>Current period</td><td>Comparative period (SPFS & not restated)</td><td>Current period</td><td>Comparative period (SPFS & not restated)</td><td rowspan="4">The short-term exemption from restating comparatives no longer applies.

However, relief from distinguishing prior period errors from changes in accounting policies remains available.</td><td rowspan="4">Transitional relief is no longer available.</td></tr>
<tr><td>Statement of financial position (SOFP)</td><td>30/06/2021</td><td>30/06/2020*</td><td>31/12/2021</td><td>31/12/2020*</td></tr>
<tr><td>Statement of profit of loss and OCI (P&L)</td><td>30/06/2021</td><td>30/06/2020*</td><td>31/12/2021</td><td>31/12/2020*</td></tr>
<tr><td>Notes to the financial statements</td><td colspan="4">• Explanation of transition from SPFS to GPFS
• Reconciliation of equity from the latest SPFS to the adjusted opening balances (quantification required)
• Description of major adjustments that would have been required to make comparative SOFP compliant with AAS (no quantification needed)
• Comparatives not restated, if new disclosures in current year then no comparatives</td></tr>
</table>

[#] The relief is also available for 30 June 2020 and 31 December 2020 year ends.
* This information is taken from the entity's most recent SPFS (and therefore may not comply with AAS).

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Amendments resulting from feedback to ED 297

ED 297 *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities,* was issued in August 2019, together with ED 295 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities,* with comment periods ending on 30 November 2019.

Extensive outreach was conducted on the proposals, including roundtables in Melbourne, Sydney, Brisbane, Perth and Adelaide, attended by 73 stakeholders, a webinar with 147 participants, as well as separate consultations with the AASB's User Advisory Committee, credit analysts and private equity investors.

The Board received 19 formal submissions on ED 297 from stakeholders representing professional services firms, regulators, professional bodies, academics, preparers, software providers and others.

The following table summarises the amendments made to ED 297 in response to stakeholders' feedback. Feedback on ED 295 is summarised in Key facts: *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Entities*.

ED 297 proposals	Feedback	The Board's response
Effective date Proposed effective date was 1 July 2020.	There was strong feedback supporting the deferral of the application date, especially as the impact from transition to first time consolidation is unknown.	➢ The Board extended the effective date by one year to **1 July 2021**.
Transitional relief ➢ Relief from restating comparatives for entities in the year of transition where they had not previously complied with R&M requirements. ➢ The comparative primary statements were a mix of SPFS and restated GPFS information.	Feedback suggested: ➢ transitional relief should be available to all entities regardless of whether the previously issued SPFS complied with all R&M requirements. ➢ relief should be available where entities had not previously provided disclosures that are required under the GPFS Tier 2 framework. ➢ inconsistent presentation of comparative information might be confusing to users. ➢ it was not clear whether an entity would be able to apply the transitional relief if it had previously stated compliance with R&M incorrectly.	➢ Transitional relief from restating comparative information: ○ is only **available to entities which elect to early adopt** due to the deferred effective date. ○ **is extended to entities** that have previously prepared SPFS and **complied with R&M** requirements. These entities do not need to present comparative information for those disclosures that they had not previously made. ○ requires entities to disclose the comparative period statement of financial position (unadjusted) as per their latest **SPFS (consistent with presentation of the statement of profit or loss,** other primary financial statements and the notes); and ○ requires entities to **disclose a reconciliation of equity** from the latest SPFS to the adjusted opening balances. ➢ As a practical expedient, entities transitioning to GPFS are **not required to distinguish the correction of prior period errors** from changes in accounting policies in the year of transition, provided the entity adopts the standard in a period beginning prior to 1 July 2022.
Scope No additional disclosures in SPFS in respect of compliance with R&M required before transition		➢ As a consequence of deferring the effective date by one year, for-profit private sector entities required by legislation, constituting or other documents to comply with AAS that prepare SPFS on or after 30 June 2021 (e.g. those transitioning to GPFS and trusts that have not amended their trust deed after 1 July 2021) will be required to make disclosures about their compliance with the R&M requirements in AAS, including consolidation and equity accounting.
Entities that voluntarily elect to prepare GPFS could apply either conceptual framework	Views were mixed regarding the application of more than one conceptual framework when voluntarily preparing GPFS.	➢ Entities not required by legislation, constituting or other documents or for-profit public sector entities, which voluntarily prepare GPFS are required to apply the revised *Conceptual Framework for Financial Reporting*.

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Other key issues considered

The following table summarises the key issues raised by stakeholders where the Board decided not to make changes to ED 297.

ED 297 proposals	Feedback	The Board's response
Entities with a non-legislative requirement to comply with AAS were exempt from the scope of the proposals provided they did not amend their constituting or other document on or after 1 July 2021.	Feedback regarding the exemption proposed in ED 297 was mixed. Respondents suggested alternatives including: ➢ A sunset on the exemption; ➢ A permanent exemption; ➢ No exemption; and ➢ More objective criteria for the exemption.	The Board decided to retain the exemption as proposed in ED 297. To address the lack of transparency in SPFS that continue to refer to AAS, the Board also decided that these entities should be required to disclose a statement of compliance, or otherwise, with the R&M requirements in AAS (including requirements set out in AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*) in their SPFS. This will be addressed as part of a separate project.
ED 297 proposals proceed independently of the project contemplating the definition of Not-for-Profit (NFP) entity.	Certainty over what the revised NFP entity definition is, is necessary before implementing the proposals in ED 297, so that entities have clarity as to which financial reporting framework (ie for-profit or NFP) they would fall into prior to being potentially required to transition to GPFS.	The Board decided it was not necessary to delay this project until the finalisation of the NFP entity definition as the effective date of transition would only be when the NFP Framework is determined. The Board will consider what, if any, transitional relief needs to be made available to those NFP entities that become for-profit entities after 1 July 2021 as part of the NFP entity definition project.
Grandfathered large proprietary companies were within the scope of ED 297.	Some respondents commented that grandfathered large proprietary companies should be excluded from the scope of ED 297 as they exempt from lodging financial statements with ASIC. Other respondents noted that these entities should not have any exemption, ie they should prepare and lodge GPFS if they meet the threshold for a large proprietary company.	As grandfathered large proprietary companies are only exempt from lodgement and not the requirement to prepare financial statements in accordance with accounting standards the Board decided no change to the scope was required. Further, these companies should already comply with ASIC RG 85 *Reporting requirements for non-reporting entities* (and therefore with R&M requirements anyway). The Board noted that addressing the lodgement requirement is not within the AASB's remit.
Australian Financial Services licence holders were within the scope of ED 297.	There is a discrepancy between the financial reporting requirements of ASIC, the *Corporations Act 2001* and the proposals in ED 297 and ED 295. Feedback suggested that if the intention of the proposals is to increase the reporting obligations attaching to an AFSL, the appropriate place for this to be reflected is within the *Corporations Act 2001* via an amendment and not indirectly via the application of the new Standard.	The Board made no changes. Any changes to ASIC requirements attaching to an AFSL are for ASIC to consider and not the AASB.
Wholly owned subsidiaries subject to the *Corporations Act 2001* were within the scope of ED 297.	The consideration of users of the financial statements of subsidiaries was too narrow, and a broader cross section of potential users should be considered before determining the best approach to presenting financial information about subsidiaries (ie wholly owned Australian subsidiaries of listed entities with no external borrowings have a limited user base and therefore additional disclosure requirements would be a burden).	The Board made no changes. AASB Research Report No. 13 *Parent, Subsidiary and Group Financial Reporting* and feedback from financial statement users and members of the User Advisory Committee indicated that subsidiary financial statements have users other than lending entities and that subsidiary financial statements are necessary.

Consultations prior to issuing this Standard

Prior to finalising this amending Standard, in addition to the consultation on ED 297 noted above, the AASB sought feedback through various other public consultations, targeted outreach and other outreach events including:

- more than 250 formal meetings with key stakeholders;
- 33 formal comment letters in response to Invitation to Comment ITC 39 Consultation Paper - *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problem*; and
- 37 user and 49 preparer responses received via targeted user and preparer surveys.