



# AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.**      **2.0**

**Meeting Date:**                      9 June 2020

**Subject:**                              GS 009 – Auditing Self-Managed Superannuation Funds (September 2015)  
Revised Guidance for approval

**Date Prepared:**                      27 May 2020

**Prepared by:**                        Marina Michaelides

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☒ **Action Required**

☐ **For Information Purposes Only**

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## Agenda Item Objectives

1. To provide an update to the AUASB on the finalisation of the revision to GS 009 – *Auditing Self-Managed Superannuation Funds* (September 2015) since the 21 April Board meeting. The ATG are recommending to the AUASB is to approve and issue revised GS 009.

## 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 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 to progress on the key issue areas as summarised in the project plan and provided in the detailed spreadsheet at the March 2020 and April 2020 AUASB Board meetings.

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*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.*

## Project Plan Update

GS 009 has undergone a revision primarily 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.

## Steps Undertaken by the ATG since 21 April Board Meeting to finalise the revision to GS 009

**NB:** *All changes from the steps below are reflected in the clean version of GS 009 provided to AUASB at Agenda Item 2.0.1*

1. AUASB Members – detailed comments received post 21 April Board meeting from a number of members were considered and disposed of by ATG and AUASB Project Sponsor.
2. ATO – provided some further comments from their legal technical group which were considered by ATG and SMSF contractor and incorporated into the revision.
3. ATG Internal Quality Assessment – detailed comments received from ATG Senior Manager have been considered and disposed of by ATG staff responsible for project and SMSF contractor and incorporated into the revision.
4. APESB – ATG consulted with the APESB specifically on areas in relation to Ethical requirements and Independence (primarily para 33 to 57) to ensure consistency of language and examples (Appendix 5) with the revised Code and Independence Guide (issued in May 2020). The revisions to the Code have meant significant changes to the Independence Guide, - therefore related paragraphs in GS 009 have required significant revision. All changes have been discussed and agreed with the APESB.

Through this consultation the ATG and APESB agreed that The Independence Guide (Fifth Edition) - May 2020, Chapter 8 now specifically addresses special considerations for SMSFs and provides a number of practical examples of scenarios and the threats to independence posed by those scenarios, with consideration of how those threats may be eliminated, including examples of appropriate safeguards if any, which may address those threats or which may lead to terminating or declining of an engagement. On this basis the ATG have removed Appendix 5 from revised GS 009, as this Appendix sort to replicate those scenarios for the auditor of an SMSF using outdated language focusing on threats to independence and safeguards which may be misleading under the revised Code and Independence Guide – Chapter 8, and could be incorrectly interpreted by SMSF auditors. In addition, the ATG do not believe replicating this scenario information from the Independence Guide in GS 009 would be useful to SMSF auditors that apply GS 009 and as such, have referenced Paragraph 57 of GS 009 directly to the Independence Guide – Chapter 8.

Note: A compare document has been provided at **Agenda Item 2.0.2** which shows marked up changes from the clean version presented to AUASB on 21 April 2020 to the clean version presented to AUASB on 9 June 2020 for approval as per **Agenda Item 2.0.2**.

## Further Matters to Note

1. OBPR Regulatory Impact Analysis (RIA) clearance was received on 15 April 2020.

### **Project Deliverables – Next steps post June 2020 AUASB Meeting**

1. ATG to finalise any comments or editorials received from the AUASB 9 June Board meeting to complete the final revised GS 009 to issue.
2. Chair to sign final GS 009 for issue dated 9 June 2020. ATG to issue revised GS 009 with news alert and social media communications and post to AUASB website.
3. AUASB Technical Group to ensure key stakeholders have received communications that GS 009 has been issued and thank them for their valuable contributions as part of the working group. This action will be summarised in a communication plan to be discussed and agreed at the June 2020 AUASB Board meeting.

Subject to approval of the Guidance Statement by the AUASB at the June 2020 AUASB meeting, these actions will commence straight after the meeting and be completed in the week commencing Monday 15 June 2020.

### **AUASB Technical Group Recommendations**

The ATG recommend that the AUASB approve revised GS 009 to be issued.

### **Material Presented**

Agenda Item 2.0	AUASB Board Meeting Summary Paper
Agenda Item 2.0.1	GS 009 – Revised draft (clean)
Agenda Item 2.0.2	GS 009 – Revised draft (marked up compare document from 21 April GS 009 clean version to 9 June clean version)

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### **Action Required**

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB to provide any final comments on revised GS 009 for consideration by ATG. Subject to any changes the ATG recommend the AUASB to approve for issue revised GS 009.	Comments or suggested changes from AUASB on final revised GS 009.	AUASB	9 June 2020	

**GS 009**  
(June 2020)

# **Guidance Statement GS 009**

## ***Auditing Self-Managed Superannuation Funds***

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



**Australian Government**

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**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](http://www.auasb.gov.au)

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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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### **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.

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<sup>1</sup>, prepared as 'Special Purpose Financial Statements' (SPFS) (financial audit); 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.<sup>2</sup>

#### 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<sup>3</sup> 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 Contributions (SGC). Complying SMSFs are Australian superannuation funds, which meet the requirements of the SISA and SISR and are "regulated"<sup>4</sup> under the SISA.
5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),<sup>5</sup> 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.<sup>6</sup> The auditor reports to the trustee<sup>7</sup> in the "approved form", as issued and updated from time to time, by the ATO,<sup>8</sup> which includes opinions under two sections:
  - (a) Part A: Financial report; and
  - (b) Part B: Compliance report.

<sup>1</sup> 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 paragraphs 14 to 18 of this Guidance Statement.

<sup>2</sup> 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.

<sup>3</sup> See Division 1, section 6 of the SISA.

<sup>4</sup> 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.

<sup>5</sup> Approved SMSF auditor is defined in paragraph 13.

<sup>6</sup> The *SMSF Annual Return* (NAT 71226) comprises income tax reporting, regulatory reporting and member contributions reporting.

<sup>7</sup> 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.

<sup>8</sup> The approved form auditor's report is contained within the *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/Super](http://www.ato.gov.au/Super).

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 or ASAs), 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;
  - (c) Part B, which provides guidance on the compliance engagement;
  - (d) Appendices 1 – 4 which provide sample templates and checklists; and
  - (e) Appendix 5 – provides a table of abbreviations used in the Guidance Statement.
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;
  - (e) APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*<sup>9</sup>; and
  - (f) applicable ASIC Regulatory Guides and Class Orders<sup>10</sup>.
10. This Guidance Statement does not provide guidance on auditing a defined benefit fund<sup>11</sup> as these funds are not prevalent as SMSFs.

## **Definitions**

11. A SMSF meets the definition of a SMSF of the SISA<sup>12</sup> 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:

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<sup>9</sup> Refer to definition in paragraph 19(d) of this guidance statement.

<sup>10</sup> Further detail is available at ASIC website: <https://www.asic.gov.au/smsf-auditor>.

<sup>11</sup> Defined Benefit Fund defined in Regulation 1.03(1) of the SISR.

<sup>12</sup> See subsections 17A(1) & (2) of the SISA.

- (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.<sup>13</sup>
12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA<sup>14</sup> 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<sup>15</sup> 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<sup>16</sup> is a person who is registered as an approved SMSF auditor with ASIC<sup>17</sup> but does not include:
- (a) a person for whom an order disqualifying or suspending the registration of 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.

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<sup>13</sup> Section 17B of the SISA allows for exceptions in relation to remuneration of trustees.

<sup>14</sup> See subsections 17A (3) & (4) of the SISA.

<sup>15</sup> 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.

<sup>16</sup> See subsection 10(1) of the SISA.

<sup>17</sup> 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.

## Trustee Responsibilities

14. The responsibilities of the SMSF's trustee are contained in the SISA, SISR, and the governing rules of the fund. The trustee has 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 trustee 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 trustee and from those of any employer-sponsor of the SMSF or their associates;<sup>18</sup>
  - (e) not enter into a contract or agreement that would hinder the trustee 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.<sup>19</sup>
15. The trustee 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.<sup>20</sup>

## *Financial Reporting and Accounting Standards applicable to SMSFs*

16. Accounting and financial reporting by SMSFs are governed by:
- (a) AASB 1056 *Superannuation Entities* and other applicable Australian Accounting Standards (AAS);
  - (b) the SISA and the SISR<sup>21</sup>;
  - (c) ATO publications and guidelines;
  - (d) the Fund's Trust Deed; and

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<sup>18</sup> See regulation 4.09A of the SISR.

<sup>19</sup> See ATO Self-managed-super-funds website: <http://www.ato.gov.au/Super/Self-managed-super-funds>.

<sup>20</sup> See regulation 8.02A of the SISR.

<sup>21</sup> The financial report format for SMSFs are set out in section 35B of the SISA and regulation 8.01 of the SISR. Under section 35B of the SISA, most SMSFs are required to prepare an operating statement and a statement of financial position. Regulation 8.02B of the SISR requires the financial report to record assets at their market value. Section 35B of the SISA requires the financial report 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.

- (e) AASB 2020-2 *Amendments to Australian Accounting Standards - Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (March 2020).
- 17. SMSFs, where the members are also the trustees, are, generally, not considered reporting entities and, as such, prepare special purpose financial reports and would not typically adopt AASB 1056. AASB 2020-2, issued in March 2020, removes the ability of certain for-profit private sector entities to self-assess their reporting requirements and to prepare a SPFS with effect from 1 July 2021. In accordance with AASB 2020-2, SMSFs are required to prepare a general purpose financial report (GPFR) where their “constituting or other document, created or amended on or after 1 July 2021, specifically requires the financial report to be prepared in accordance with Australian Accounting Standards”<sup>22</sup>.
- 18. It remains the trustee’s responsibility to select the accounting framework and the auditor’s responsibility to assess the appropriateness of the framework<sup>23</sup> 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. Further consideration may be required when applying GS 009 to the audit of a SMSF that is required to prepare the financial report under the general purpose financial reporting framework. In the absence of the specific trust deed indicating the preparation of the financial report in accordance with AAS, legislative requirements prevail.

## Auditor’s Responsibilities

- 19. The professional obligations of approved SMSF auditors under the SISA<sup>24</sup> are to:
  - (a) complete the continuing professional development requirements prescribed by the regulations;<sup>25</sup>
  - (b) hold a current policy of professional indemnity insurance;<sup>26</sup>
  - (c) comply with:
    - (i) any competency standards<sup>27</sup> ASIC determines; and
    - (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 & Ethical Standards Board (APESB) and set out in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code); as prescribed by the regulations.<sup>28</sup>

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<sup>22</sup> See [\*Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For Profit Private Sector Entities\*](#).

<sup>23</sup> See ASA 210 paragraph 6(a) which establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.

<sup>24</sup> See section 128F of the SISA.

<sup>25</sup> See regulation 9A.04 of the SISR.

<sup>26</sup> See regulation 9A.05 of the SISR.

<sup>27</sup> See ASIC Class Order CO 12/1687 *Competency Standards for approved SMSF auditors*.

<sup>28</sup> See regulation 9A.06 of the SISR.

20. 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 the Institute of Public Accountants (IPA) are required to comply with competency requirements<sup>29</sup> 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.
21. The auditor is required under the SISA to:
- (a) provide an auditor's report on the SMSF's operations for the year to the trustee in the approved form,<sup>30</sup> 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;<sup>31</sup>
  - (b) report in writing to the trustee, 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<sup>32</sup> using the approved form auditor/actuary contravention report (ACR) and instructions (ACR instructions),<sup>33</sup> 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. 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. 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"; and

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<sup>29</sup> See *Competency Requirements for Auditors of Self-Managed Superannuation Funds* (February 2008) issued by Representatives of the Australian Accounting Profession, CA ANZ (previously ICAA) CPA Australia and IPA (previously NIA).

<sup>30</sup> See section 35C of the SISA.

<sup>31</sup> See regulation 8.03 of the SISR.

<sup>32</sup> 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.

<sup>33</sup> *Completing the Auditor/actuary contravention report* (instructions) (NAT 11299) and *Auditor/actuary contravention report* (ACR) (NAT 11239). See: [www.ato.gov.au/Super](http://www.ato.gov.au/Super)

- (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.<sup>34</sup>

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

- 24. ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and related Services 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 Australian Auditing Standards*

- 25. 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 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) 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

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<sup>34</sup> ASIC class order CO 12/1687.

reports and records, establishing and maintaining internal controls, particularly those preventing and detecting fraud and error, and providing the auditor 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 for an Audit of a Financial Report and Other Financial Information* requires the engagement partner to:
- (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 that is<sup>35</sup>:
- (i) 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 Auditing Standards and applicable legal and regulatory requirements;
  - (ii) 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 can provide appropriate documentation as to the methodology and/or reasoning that led to the conclusion.
- The use of a 'completion memorandum' as a summary of the conduct of the audit and how the opinion was formed.

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<sup>35</sup> 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 financial report audit.

- (iii) assembled in an audit file on a timely basis (ordinarily not more than 60 days) after the date of the auditor's report.
- (f) Audit file retention is not mandated; however, paragraph 58<sup>36</sup> of ASQC 1 establishes a period of time for the retention of documentation for the system of quality control that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality control, or for a longer period if required by law or regulation. 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.<sup>37</sup>
- (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.

ASA 250 is relevant due to the requirement for a SMSF to have an annual financial report audit and a compliance engagement. Where non-compliance with the SISA or the SISR is identified, the auditor is required under ASA 250 to assess the impact, if any, on the financial report.

Compliance breaches identified as a result of the financial 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 may consider modifying their opinion on the audit of the financial report – Part A qualification. This is in addition to any modification of the opinion in respect of the Compliance Engagement – Part B qualification.

- An example of a compliance breach that may cause a material misstatement of the SMSF's financial report is where there is a breach of the in-house asset (IHA) rules. A review of the rectification plan to determine the impact, if any, on the financial report will be necessary, for the auditor to determine whether to modify their opinion.
  - An example of where there may be a material misstatement in the financial report 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 follows the requirements in ASA 450 *Evaluation of Misstatements identified during the Audit* and then considers any impact on their opinion on the financial report.
- (h) ASA 260 *Communication with Those Charged with Governance* requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate, usually the trustee in the audit of an SMSF, and communicate with them, on a timely basis, the responsibilities of the auditor in relation to the financial report audit, an overview of the planned scope and timing of the audit, significant qualitative aspects of the entity's accounting practices, significant findings

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<sup>36</sup> See ASQC 1 paragraph 58, which states the period of documentation should be sufficient to permit those performing monitoring procedures to evaluate the firm's system of quality control, or for a longer period if required by law or regulation.

<sup>37</sup> 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.

from the audit, and auditor independence. The auditor may also consider issuing a management letter, or some form of audit completion document, to the trustee. The management letter may be used to inform the trustee of 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 communicates directly with the trustee, rather than indirectly through, for example, the referring accountant. The auditor has a direct responsibility to the trustee and should not seek to rely on the representations of other parties.<sup>38</sup>

- (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 trustee of the fund.
- (j) *ASA 300 Planning an Audit of a Financial Report* requires the auditor to perform preliminary engagement activities, including evaluation of their own compliance with relevant ethical requirements including independence, to establish and document an overall audit strategy that sets the scope, timing and direction of the audit, that guides the development of the audit plan and plan the nature, timing and extent of direction and supervision of the engagement team members and review of their work.
- (k) *ASA 315 Identifying and Assessing the Risks of Material Misstatement* 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.

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

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* (GS 007)

Part A of GS 007 provides guidance to a ‘user auditor’ on the application of ASA 402 in respect of investment management services<sup>39</sup>.

GS 007 provides guidance for the preparation, and use as audit evidence, of two types of reports on controls – ‘type 1’ and ‘type 2’, stating that a type 1 report may be used by the auditor in applying ASA 315 to audit planning, whereas a type 2 report on controls may also be used by the auditor in responding to assessed risks in accordance with ASA 330.

A type 2 report on controls, 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 report on controls does not 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 Reports on Controls at a Service Organisation*

ASAE 3402 is the standard applied by an auditor of a service organisation that is engaged to provide an assurance report on controls. Reports prepared in accordance with ASAE 3402 are capable of providing appropriate evidence under ASA 402. The standard provides for the issuance of either type 1 or type 2 report on controls. Only type 2 reports on controls are capable of providing reasonable assurance that the control objectives within the organisation were achieved throughout 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 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 may be required.

In using a type 2 service auditor’s assurance report on controls, 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

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<sup>39</sup> Investment management services may include WRAP platforms, custodial asset management, management accounts - Separately Managed Account (SMA) or an Individually Managed Account (IMA). A WRAP or Wrap Service is an administrative or reporting service whereby investments are consolidated, managed or held by a custodian. WRAPs combine reporting on investments including bank accounts, listed securities, managed funds, insurance and superannuation which are held within the portfolio.

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* deals with the requirements relating to the use of substantive analytical procedures. Furthermore, the standard requires the auditor to design and perform analytical procedures 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 that, when audit sampling is used, the auditor, in designing the sample 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 value accounting estimates, and related 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<sup>40</sup> 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

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<sup>40</sup> As 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*.

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 and other statutory reporting requirements, 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 trustee.
- (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 objectivity 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.
- (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, it is not possible to issue an unqualified audit opinion. In these circumstances, ASA 705 requires the auditor to issue either a qualified opinion, a disclaimer of opinion or an adverse opinion. The decision regarding the type of modified opinion is appropriate, depends on both the nature of the matter and the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.
- (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 presented in the auditor's report.
- (ee) ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* requires the auditor to determine whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.
- (ff) ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* specifies the requirements for 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.<sup>41</sup> Auditors' reports for SMSFs include an Emphasis of Matter paragraph drawing attention to the note in the financial report which describes the basis of accounting<sup>42</sup>.

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<sup>41</sup> In rare circumstances where the SMSF is required to prepare a GPFR the auditor refers to the requirements in ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

<sup>42</sup> See ASA 800, paragraph 14.

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

26. 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, for example:
- 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 requirements.
  - Agree the terms of the engagement in writing.
  - Plan the compliance engagement so that it will be performed effectively.
  - Consider materiality and identify areas where the risks that may cause material non-compliance with the compliance requirements are likely to arise when planning and performing the compliance engagement.
  - Respond to the risks identified and use as a basis for designing and performing appropriate assurance procedures.
  - 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.
  - Form 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. Since ASAE 3100 is to be 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 (ASAs) do not apply to compliance engagements, they may provide helpful guidance in the conduct of a compliance engagement.
28. ASAE 3402 provides for assurance 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 an assurance 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 142-148.

## Preliminary Engagement Activities

29. Prior to commencing the audit, the auditor performs a number of preliminary activities 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 required by ASA 220 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, in accordance with ASA 220; and
  - (c) establish an understanding of the terms of engagement, as required by ASA 210.

These steps are outlined below.

### *Acceptance and Continuance Procedures*

30. Under the Auditing Standards and ASAE 3000, the auditor accepts or continues an engagement only when the auditor has no reason to believe that relevant ethical requirements, including independence, will not be satisfied.
31. 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 trustee<sup>43</sup> to communicate with the previous auditor.
32. Where an auditor is unable to obtain sufficient appropriate audit evidence regarding the fund's opening balances, they may need to limit the scope of the audit and consider modifying their opinion on the financial statements – Part A qualification.

### *Ethical Requirements*

33. In accordance with ASA 102, ASA 200 and ASAE 3000, the auditor is required to comply with relevant ethical requirements relating to audit and assurance engagements. For the purposes of GS 009 these include the applicable requirements of the Code.<sup>44</sup> The Code provides a conceptual framework that specifies an approach to identify threats to compliance with the fundamental principles, evaluate the threats identified and address the threats by eliminating or reducing them to an acceptable level<sup>45</sup>.
34. The fundamental principles of ethics comprise<sup>46</sup>:
- (a) integrity;
  - (b) objectivity;
  - (c) professional competence and due care;
  - (d) confidentiality; and
  - (e) professional behaviour.

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<sup>43</sup> See Guidance Statement GS 011 *Third Party Access to Audit Working Papers*, paragraph 14.

<sup>44</sup> In Australia, the applicable code of ethics of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, as issued from time to time by the APESB. The Code has been adopted by CPA Australia, IPA and CA ANZ and is applicable to their members.

<sup>45</sup> See section 120 of the Code.

<sup>46</sup> See section 110 of the Code.

The fundamental principles of ethics establish the standard of behaviour expected of the auditor when performing the SMSF audit and compliance engagement.

35. Under ASA 220 and ASAE 3100, the auditor accepts an engagement only when the auditor is satisfied that they, and, if applicable, the engagement team, have met the relevant ethical requirements.
36. 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<sup>47</sup> the auditor is required to comply with competency standards set out by ASIC.<sup>48</sup> 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.
37. 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*

38. ASA 220 requires the engagement partner to form a conclusion on compliance with the independence requirements that apply to the audit engagement. ASAE 3100 requires compliance with the fundamental ethical principles on compliance engagements, for which the concept of independence is integral. The SISA<sup>49</sup> and the SISR<sup>50</sup> require the auditor to comply with the auditor independence requirements prescribed by the Code.<sup>51</sup>
39. Independence comprises<sup>52</sup>:
  - (a) independence of mind - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby 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 would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional scepticism has been compromised.
40. Independence enables the auditor to act with integrity, to be objective and to maintain an attitude of professional scepticism and is mandatory<sup>53</sup> for auditors undertaking the audit of a SMSF.

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<sup>47</sup> See section 128Q of the SISA.

<sup>48</sup> See ASIC Class Order CO 12/1687.

<sup>49</sup> See subsection 128F(d) of the SISA.

<sup>50</sup> See regulation 9A.06 of the SISR.

<sup>51</sup> In addition, auditors and assurance practitioners should refer to the *Independence Guide*- Fifth Edition, May 2020 a joint publication issued by APESB, CA ANZ, CPA Australia and the IPA.

<sup>52</sup> See section 120 of the Code.

<sup>53</sup> See section 128F(d) of the SISA and regulation 9A.06 of the SISR.

41. The *Independence Standards* in Parts 4A and 4B of the Code set out requirements and application material on how to apply the conceptual framework in the Code to maintain independence when performing audits, reviews or other assurance engagements.
42. When assessing independence, the auditor<sup>54</sup>:
- (a) identifies any threats to compliance with the fundamental principles (and independence);
  - (b) evaluates whether the identified threats are at an acceptable level; and
  - (c) addresses any identified threats that are not at an acceptable level by:
    - (i) eliminating the circumstances, including interests or relationships, that are creating the threats;
    - (ii) applying safeguards where available and capable of being applied, to reduce the threats to an acceptable level; or
    - (iii) declining or ending the engagement.
43. Identifying threats to the fundamental principles (and independence) requires an understanding by the auditor of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation or the firm that enhance the auditor acting ethically might also help identify threats. Threats with fall into one or more of the following categories:<sup>52</sup>
- (a) Self-interest threat;
  - (b) Self-review threat;
  - (c) Advocacy threat;
  - (d) Familiarity threat; and
  - (e) Intimidation threat.
44. Threats to compliance with the fundamental principles (and independence) must be evaluated by the auditor as to whether the threats are at an acceptable level, being a level at which the auditor using the reasonable and informed third party test would likely conclude that the auditor complies with the fundamental principles. The consideration of qualitative and quantitative factors is relevant as is the combined effect of multiple threats. The conditions, policies and procedures referred to in paragraph 43 might be relevant factors in evaluating the level of threats and examples include:<sup>52</sup>
- Corporate governance requirements.
  - Educational, training and experience requirements for the profession.
  - Effective complaint systems which enable the member and the general public to draw attention to unethical behaviour.
  - An explicitly stated duty to report breaches of ethics requirements.
  - Professional or regulatory monitoring and disciplinary procedures.

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<sup>54</sup> See section 120 of the Code.

45. In evaluating threats to independence 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 trustee, financial adviser, accountants, administrator, actuary and any other person or organisation involved with the management or operation of the SMSF.
46. Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstances creating the threat. However, in some situations the only way to address the threat is to decline or end the engagement as the circumstances that created the threat cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level. Safeguards are actions, individually or in combination, taken by the auditor to effectively reduce threats to an acceptable level<sup>52</sup>.
47. As outlined in Section 8.4 of the *Independence Guide* – Fifth Edition, May 2020 (Independence Guide) the following scenarios involving SMSFs would always result in independence requirements being breached. In each of these cases, it would be expected that an auditor would decline the audit engagement:
- (a) an auditor cannot audit a SMSF where the auditor, their staff or their firm has prepared the financial statements for the SMSF unless it is a routine or mechanical service;<sup>55</sup>
  - (b) an auditor cannot audit their own or an immediate family member's SMSF;<sup>56</sup>
  - (c) an auditor cannot audit the SMSF where a partner within their own firm is a member/trustee of that SMSF;<sup>57</sup> and
  - (d) an auditor cannot audit the SMSF where they have a business relationship with a member/trustee of the SMSF.<sup>58</sup>
48. In addition, an auditor should not audit the SMSF where a relative or a related party of the auditor is a member/trustee of that SMSF or where the auditor has a close personal relationship. Where an audit team member on the audit of a SMSF has a close family member (parent, child or sibling who is not an immediate family member) that is a member and trustee of that SMSF, a reasonable and informed third party would likely conclude that a self-interest threat to independence is not an acceptable level and must be addressed.<sup>59</sup>
49. A firm must not assume a management responsibility for an audit client.<sup>60</sup> 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 the firm to reduce the self-review threat to an acceptably low level. As such, the firm would need to withdraw from either the administration or the audit engagement.
50. A firm (or network firm) must not provide to a SMSF any accounting and bookkeeping services, including preparing the financial statements that the firm will be auditing or financial information which forms the basis of such financial statements, unless:<sup>61</sup>
- (a) the services are of a routine or mechanical nature; and
  - (b) the firm addresses any threats created by providing such services that are not at an acceptable level.
51. Assisting an audit client in the preparation of accounting records or financial statements will create a self-review threat when those records and financial statements are subsequently

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<sup>55</sup> See section 600 and subsection 601 of the Code.

<sup>56</sup> See sections 510, 521 and 523 of the Code.

<sup>57</sup> See section 523 of the Code.

<sup>58</sup> See section 520 of the Code.

<sup>59</sup> See section 510 and 521 of the Code and section 8.4 of the Independence guide.

<sup>60</sup> See section 600 of the Code.

<sup>61</sup> See subsection 601 of the Code and section 8.4 of the Independence guide.

audited by the same firm. Such services are prohibited unless they are of a routine or mechanical nature, meaning the services require little or no professional judgement (e.g. posting transactions coded by the SMSF trustee(s), posting SMSF trustee approved entries to the trial balance or preparing the financial statements based on an a trial balance approved by the SMSF trustee(s)). However, even if the service is routine or mechanical a reasonable and informed third party would conclude that threats to independence are not at an acceptable level and would need to be addressed. The threats might be addressed by applying safeguards if they are available and capable of being applied, such as:<sup>62</sup>

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service, review the audit work or service performed.

If the auditor cannot eliminate the circumstances creating the threats or apply safeguards to reduce the self-review threat to an acceptable level, they must decline the engagement.

52. Provision of taxation return preparation services to a SMSF which is also an audit client does not usually create a threat to independence. However, other tax services including tax calculations for the purpose of preparing the accounting entries, tax planning and other tax advisory services, tax services involving valuations or assistance in the resolution of tax disputes, may create threats to independence that need to be addressed and some services are prohibited by the Code.<sup>63</sup>
53. Provision of financial advice to a SMSF which is also an audit client of the same firm will likely create self-interest and self-review threats that need to be addressed. Further guidance is provided in Section 8.5 of the Independence Guide.
54. 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 self-interest or intimidation threats. In evaluating and addressing these threats appropriate safeguards may include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed and the audit firm establishing policies and procedures around engagement quality control reviews.<sup>64</sup> These policies may include contracting of suitably qualified external persons or other firms<sup>65</sup> 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. If the circumstances creating the threats cannot be eliminated and appropriate safeguards are not available or capable of being applied to reduce threats to an acceptable level, the auditor may need to terminate or decline some of the engagements. Further guidance in relation to these types of arrangements are addressed in Section 8.5 of the Independence Guide.
55. Reciprocal auditing arrangements create threats to independence and are a concern to both the ATO and to ASIC. The following scenarios are drawn from Section 8.5 of the Independence Guide:<sup>66</sup>
- (a) Where two auditors conduct the audit of each other's personal SMSFs – the auditors cannot eliminate the circumstances creating the threats to independence and there are no safeguards available or capable of being applied to reduce threats to independence to an acceptable level. As such, the respective engagements must be declined.

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<sup>62</sup> See subsection 601 of the Code and sections 8.4 and 8.5 of the Independence Code.

<sup>63</sup> See subsection 604 of the Code and section 8.5 of the Independence Guide.

<sup>64</sup> See Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, paragraph 35.

<sup>65</sup> See ASQC 1, paragraph A50.

<sup>66</sup> See Chapter 8 of the Independence Guide issued by APESB, CA ANZ, CPA Australia & the IPA.

- (b) Self-interest, familiarity and intimidation threats to independence 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's SMSF clients. Where this arrangement represents a large proportion of the total fees of the firm(s) a reasonable and informed third party would consider the threats to independence are not at an acceptable level and would need be addressed. In this case, the auditors cannot eliminate the circumstances creating the threats to independence. To reduce this threat to independence to an acceptable level, safeguards for auditors could include:

- spreading these referrals to a number of different SMSF auditors;
- having an appropriate reviewer, who did not take part in the audits, conduct a review of the audits; or
- engaging an external quality control reviewer or consultant concerning key audit judgments.

If the circumstances creating the threats cannot be eliminated, and if appropriate safeguards are not available or capable of being applied, each auditor must decline the engagements and end the reciprocal arrangement.

56. In situations in which no safeguards are available or capable of being applied to reduce the threats 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<sup>67</sup>.
57. The Independence Guide, Chapter 8 specifically addresses the independence requirements in the Code in a SMSFs context and provides a number of practical scenarios and how the conceptual framework in the Code can be applied to those scenarios.

#### *Professional Judgement and Scepticism*

58. ASA 200 requires the auditor to plan and perform an audit exercising professional judgement, and with an attitude of professional scepticism. In exercising professional scepticism, auditors apply an attitude that includes a questioning mind, remaining alert to conditions which may indicate possible misstatement due to error or fraud, and critically assessing audit evidence.

#### *Quality Control*

59. 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.

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<sup>67</sup> See section 120 of the Code.

- 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.
- Monitoring quality adequately against firm and professional standards, including the Auditing Standards and ASAEs.

*Agree the Terms of Engagement*

60. Under ASA 210, the auditor is required to agree the terms of the audit engagement in writing with the SMSF trustee prior to conducting the audit. This is usually in the form of an engagement letter to the trustee. ASA 210 provides guidance on the principal contents of an engagement letter.
61. The trustee is required to appoint the auditor at least 45 days prior to the date that the SMSF annual return is due to be lodged.<sup>68</sup> Either the trustee may be involved in the selection and appointment of the auditor or the SMSF's accountants, administrators or financial planners may assist with the sourcing and recruitment of an auditor for the SMSF. In either case, the trustee 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 trustee of the SMSF and not the auditor and the party referring the engagement such as the accountant or administrator.
62. 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 trustee, 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

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<sup>68</sup> Requirement under regulation 8.02A of the SISR for appointments after 1 July 2013.

- includes a notice to the trustee 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.
63. 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 trustee misunderstand the objective and scope of the audit;
  - a change in trustee;
  - 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.
64. An example engagement letter is attached as Appendix 1 of this Guidance Statement.

## **Planning**

65. Planning an audit involves a number of closely related activities, 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 as necessary 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.
66. 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.
67. 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.
68. 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.
69. 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*

70. 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.
71. The complexity of the audit strategy will vary with the size, nature and complexity of the SMSF.<sup>69</sup> 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.
72. 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 trustee and members.
73. 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 trustee;
  - (c) the SMSF was established with either a corporate trustee or individual trustee 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.

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<sup>69</sup> ASA 300 provides guidance on establishing the audit strategy for smaller entities.

- 74. 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.
- 75. It is possible for the fund's governing rules to be more restrictive than the SISA and SISR and prohibit or limit the trustee's actions or powers. However, even if the fund's governing rules are more expansive than the SISA and SISR, the trustee must ensure they still comply with the requirements of the SISA and SISR.

#### *The Audit Plan*

- 76. 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.
- 77. 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.
- 78. 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.
- 79. 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.<sup>70</sup>

#### **Risk Assessment Procedures**

- 80. 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.
- 81. 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.
- 82. 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.

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<sup>70</sup> Auditor guidance and information, including information on the ATO's electronic SMSF audit tool (eSAT) for use in conducting the compliance engagement, is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors>.

83. 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 Underlying Data in an SMSF Audit*

84. Initial risk assessment and audit planning includes considering the method of data collection used by the preparer of the financial report for the SMSF. It is common to see the use of technology for data management and transfer and this may influence the risk assessment undertaken by the SMSF auditor.
85. 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. In current practice it is more common for cash transaction data to be sourced via data feeds, which entails 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.
86. Where the data feeds are utilised via a 'direct-connect' process, that is, an end-to-end encrypted link over a point-to-point connection, the ability to intercept or manipulate the data is removed as the information feeds directly from a financial institution into the software of the party preparing the annual compliance report. If an ASAE 3402 type 2 report on controls has been obtained, this process of data transfer does not ordinarily represent any additional risks to the SMSF audit process. However, this does not change the need for the audit planning process to encompass an assessment of the inherent risks associated with the transactional data being held by a service organisation provider such as an Investor Directed portfolio Services (IDPS)<sup>71</sup>.
87. Additional testing by the auditor may be considered for the audit of a SMSF that utilises this data transfer process for the preparation of the annual compliance report and would normally be undertaken in the audit planning phase. The consideration of additional testing may be necessary where the preparer of the financial report utilises manual file imports from financial institutions and the data integrity of the information may not be reliable.

**Materiality**

88. ASA 320 requires the auditor to consider performance materiality<sup>72</sup> 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

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<sup>71</sup> '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.

<sup>72</sup> 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 appropriately 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.

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.

89. 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).
90. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within Part A (paragraphs 172 to 175) and Part B (paragraphs 315 to 316), respectively, of this Guidance Statement.

### **Audit Evidence**

91. 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.
92. 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.
93. 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;
  - for limited recourse borrowing arrangements, loan deeds showing loans are limited in recourse, holding trust deeds, extracts of bank statements showing transactions related to the arrangements (for example, payment of the initial deposit and subsequent loan repayments);
  - where real property is held by the SMSF, a copy of the title deed 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, certificates of title, bank statements and annual investor statements issued by WRAP providers;
  - income and expense substantiation, including the sampling methodology used (if not a 100 per cent sample size);
  - bank statements, including opening and closing statements, as well as any other statements to evidence transactions that are unusual due to size and/or 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; and
  - trustee minutes and/or resolutions, the trustee representation letter, the fund's Investment Strategy and any other relevant correspondence.
94. 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 is ordinarily provided efficiently and comprehensively, to provide the adequate documentation 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;
  - is in documentary form;
  - comprises original documents; or
  - is 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.
95. 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.
96. Obtaining a bank confirmation is a method used to provide evidence of 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. Guidance Statement GS 016 *Bank Confirmation Requests* (GS 016) provides guidance to auditors on the enquiry and confirmation methods for obtaining audit evidence regarding bank accounts and transactions.
97. A bank confirmation certificate is unlikely to provide the auditor with sufficient appropriate audit evidence on the completeness of the transactions that occurred during the financial year under audit. The audit file may also contain a copy of the bank reconciliation, the analytical review of the cash balances and evidence of the various transaction testing undertaken by the auditor.
98. As an alternate method of obtaining independent information regarding cash transactions, the auditor may request the SMSF trustee to request the financial institution to provide copies of

the bank statements to the auditor 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.

99. 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*

100. 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.
101. 'Direct-connect' transmission, that is, an 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 data is removed. However, there may be some likelihood that transmission errors may be encountered in this environment. Therefore, it is important that the auditor understands the control environment that is supporting the data feed process. The auditor would normally request an ASAE 3402 type 2 assurance report to provide evidence of the effectiveness of the control environment, to assess if there is any material misstatement of the financial report. If no assurance report exists, the auditor may need to consider additional testing to determine the reliability of the information provided.
102. Where data feeds are prepared via an aggregator ('scrapped data feeds') the auditor considers evaluating the integrity of the data. The auditor considers whether conducting their own testing of the information collected via this form of data feed, will assist in obtaining appropriate audit evidence that can be included on the audit file.
103. Further consideration by the auditor may be necessary where the preparer of the financial report utilises manual file imports from financial institutions and the auditor may not be able to rely on the integrity of the information.
104. 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 99 to 102 above.
105. 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.
106. 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*

107. 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.
108. 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*

109. 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*

110. 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*

111. 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.
112. 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.
113. Enquiry alone ordinarily does not provide sufficient appropriate 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.
114. The auditor obtains written representations from the trustee 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.<sup>73</sup>

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<sup>73</sup> See ASA 580 for further requirements and explanatory guidance on written representations.

*Confirmation*

115. 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.<sup>74</sup>

*Recalculation*

116. 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*

117. 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*

118. 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.
119. 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 trustee or deviates from predicted amounts.
120. 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**

121. 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.
122. 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

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<sup>74</sup> See ASA 505 for further requirements and explanatory guidance on external confirmations.

prepared at the time the work is performed is likely to be more accurate than documentation prepared subsequently.

123. 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.
124. The form, content and extent of audit documentation depend on factors such as the:
- nature of the audit procedures to be performed;
  - identified risks of material misstatement;
  - extent of judgement required in performing the work and evaluating the results;
  - significance of the audit evidence obtained;
  - nature and extent of exceptions identified;
  - 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
  - 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*

125. 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.
126. 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<sup>75</sup> after the date the audit report is signed.
127. 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.

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<sup>75</sup> See section 307B of the *Corporations Act 2001*.

128. 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.
129. 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*

130. 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<sup>76</sup> 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.
131. 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.
132. 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**

133. Under ASA 580 and ASAE 3100, the auditor seeks written representations from the trustee 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..
134. In instances where the auditor's contact with the trustee is limited, and may only be at the conclusion of the engagement, in the interest of having a more efficient audit approach the auditor may consider obtaining certain confirmations from the trustee at the planning stage of the engagement, for example, regarding the eligibility of the trustee, safe-guarding of assets and fraud.
135. With respect to the financial audit of a SMSF, under ASA 580, the auditor obtains written representations from the trustee, including that they:

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<sup>76</sup> See ASIC Class Order 12/1687, paragraph 48.

- 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.
136. The auditor may also seek representations under ASAE 3100, with respect to the compliance engagement, that the trustee:
- 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.
137. 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.
138. Representations by the trustee cannot replace other evidence the auditor could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the 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.
139. 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**

140. SMSFs may use service organisations to provide investment management services including:

- custody (including 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.

These investment management services may take various forms including WRAP accounts, individually managed portfolio services, individual mandates or platform investments. Further guidance is provided in GS 007.

141. The use of a service organisation by a SMSF is a consideration for the auditor when planning the level of 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 report or type 2 controls report. ASAE 3402 provides detailed requirements and guidance on the preparation of these assurance reports.

*Type 1 or Type 2 Reports on Controls*

142. A type 1 report provides an opinion on the description and design of controls at the service organisation, provided by the service entity's management and cannot be relied on to reduce the level of substantive audit testing conducted by the SMSF auditor.
143. A type 2 report provides a further opinion over the effectiveness of controls beyond that of a type 1 report and includes the service auditor's opinion on the management's description of the control environment after tests of the controls are undertaken. The type 2 report may be used in some circumstances to reduce the level of substantive testing undertaken by the SMSF auditor.
144. The extent of the reliance to be placed on a service auditor's assurance report provided in conjunction with a service entity's annual investor statement is determined after a review of the assertions made relevant to information contained in the report. For example, does the assurance report limit the scope of the engagement undertaken by 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 statement. Where the fund uses a custodian but the custodian does not engage an independent auditor to issue a ASAE 3402 assurance 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.
145. A type 2 report on controls can be relied on to the extent the SMSF auditor can map the tests of controls against the assertions in the service provider's assurance report. SMSF auditors need to ensure that any report issued complies with ASAE 3402 requirements otherwise further audit procedures may be required by the auditor to obtain sufficient appropriate audit evidence. Greater consideration may be necessary if the service organisation operates overseas.
146. 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. The 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. 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.
147. Operators of IDPSs and IDPS-like services are required under ASIC Class Orders CO 13/762<sup>77</sup> or CO 13/763<sup>78</sup> 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

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<sup>77</sup> See ASIC Class Order 13/762 *Investor Directed Portfolio-like Services provided through a registered managed investment scheme*.

<sup>78</sup> See ASIC Class Order 13/763 *Investor Directed Portfolio Services*.<sup>79</sup> See paragraph A42 of ASA 402 for further explanatory material.

the annual investor statements, quarterly reports and any information that is made accessible electronically, are not materially misstated;

- (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.

148. 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 148.71 to 75 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 133 details the requirement to provide an annual investor statement and audit report within three 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**

149. 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.

150. 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.

151. 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.

152. In general, it is likely to be cost prohibitive for a SMSF auditor to undertake assurance procedures directly of an IDPS control environment. Where appropriate the SMSF auditor obtains the ASIC Class Order CO 13/763 audit report and applying professional judgment,

determines an appropriate risk assessment for the SMSF audit. The risk assessment for the audit determines the level of testing required for individual entries that underpin the financial report, 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 tax statement.

153. Where the SMSF auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the SMSF's financial report, a limitation on the scope of the audit exists. Whether the SMSF auditor expresses a qualified opinion or disclaims an opinion depends on the SMSF auditor's conclusion as to whether the possible effects on the financial report are material or pervasive<sup>79</sup>.

### Using the Work of an Expert

154. 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 Guidance Statement 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 trustee) (GS 005).
155. 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*

156. Actuaries and valuers are experts generally appointed by the trustee 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.
157. The trustee is 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.<sup>80</sup> 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-

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<sup>79</sup> See paragraph A42 of ASA 402 for further explanatory material.

<sup>80</sup> See section 295-390 of the ITAA 1997.

linked, or account based pension. A SMSF using the segregated method will need an actuarial certificate to claim exempt current pension income (ECPI) if it paid any other type of pension.

158. Since 1 July 2017, SMSFs that are classified as having disregarded small fund assets<sup>81</sup> are required to use the proportionate method for exempt pension income calculation, regardless of whether the fund is 100 per cent in the retirement phase. A SMSF has disregarded small fund assets if at least one fund member has a retirement phase income stream and:

- (a) a fund member has a total super balance that exceeds \$1.6 million; and
- (b) that member is receiving a retirement phase income stream from any source.

A SMSF can have disregarded small assets even if no members have an income stream exceeding \$1.6 million or above in the SMSF. The only condition that must be present in the SMSF is that there is at least one member in the retirement phase. The remaining conditions can exist outside of the SMSF.

159. A SMSF that is 100 per cent in pension phase will be required to obtain an actuarial certificate that states the ECPI percentage is 100 per cent.

160. 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) assessment of 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 the 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.

161. 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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<sup>81</sup> Section 295-387 ITAA 1997.

## PART A – FINANCIAL AUDIT

162. 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.
163. 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<sup>82</sup> 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 AAS and the trustee determines the applicable financial reporting framework which they will apply to the SMSF's financial report.<sup>83</sup>

### Financial Reports

164. An accumulation fund, or defined contribution fund, is a fund which is not a defined benefits fund.<sup>84</sup> The benefits payable to members on satisfying a condition of release in an accumulation fund are determined by the accumulated contributions made to the fund and the investment income thereon, as well as any insurance benefit available, less any expenses or other deductions.
165. 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.
166. 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.<sup>85</sup> This Guidance Statement does not deal with the audit of these funds.
167. Typical account categories in an SMSF's financial report include:
- Assets:
    - Cash and cash equivalents;
    - Investments;
    - Receivables; and
    - Prepayments.
  - Liabilities:

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<sup>82</sup> See paragraph 6 of ASA 210.

<sup>83</sup> If a SMSF is a reporting entity, or where its trust deed, created or amended on or after 1 July 2021, requires the financial report to be prepared in accordance with the Australian Accounting Standards (AAS), the SMSF is required to prepare a GPFR and adhere to the AAS in the preparation of that report.

<sup>84</sup> Definition from regulation 1.03(1) of the SISR.

<sup>85</sup> See Regulations 8.02 and 8.03 of the SISR.

- 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 report).
- 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 182 to 253, and illustrative financial audit procedures are also provided in Appendix 4 of this Guidance Statement.

## **Assertions and Audit Evidence**

168. 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 trustee makes assertions implicitly or explicitly (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report, including related disclosures.
169. In accordance with ASA 315<sup>86</sup>, 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.
170. 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.

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<sup>86</sup> See paragraph A190 of ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, issued in February 2020. This standard is operative for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted.

- (iii) Accuracy - amounts and other data relating to recorded transactions and events have been recorded appropriately.
  - (iv) Cut-off - transactions and events have been recorded in the correct accounting period.
  - (v) Classification - transactions and events have been recorded in the proper accounts.
  - (vi) Presentation – transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.
- (b) Assertions about SMSF account balances, and related disclosures 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.
  - (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.
  - (v) Classification – assets, liabilities and equity interests have been recorded in the proper accounts.
  - (vi) Presentation - assets, liabilities and member entitlements are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

## **Materiality**

171. 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.
172. 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.

173. 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 a misstatement on the financial report as a whole.

174. 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**

175. 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.

176. When the prior period's financial report was audited by another auditor, the current auditor may be able to obtain sufficient appropriate 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.

177. 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.

178. GS 011 *Third Party Access to Audit Working Papers* provides Example Letter E as a guide for auditors when wanting to access 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.

179. 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 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 considers carrying out additional audit procedures relating

to the opening balances to ascertain whether they contain material misstatements, are correctly brought forward and that the accounting policies have been consistently applied in the current period.

180. 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 298 to 302.

## **Cash and Cash Equivalents**

181. 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.
182. 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.
  - Valuation and allocation – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.
183. 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 trustee but by those parties that may have access to a fund's bank accounts.
184. If the banking operations are significant to the audit, the auditor sends bank audit confirmation requests<sup>87</sup> 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.
185. 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**

186. The investments of a SMSF may include:
- Listed securities;

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<sup>87</sup> For an example of a bank audit confirmation, refer to GS 016.

- 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<sup>88</sup> such as artwork, antiques, wine and recreational boats.
187. Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.
188. 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.
  - Accuracy, 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.
189. 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.
190. The audit procedures relating to investments will vary depending on the administration and management arrangements adopted by the trustee, the type of investments held and the trustee structure that holds the assets. The auditor exercises professional judgement in determining the appropriate auditing procedures.

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<sup>88</sup> Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

*Existence and Ownership*

191. 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 trustee, 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*

192. 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 trustee 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*

193. As the SMSF's financial report is generally a special purpose financial report, the trustee chooses the financial reporting framework under which the SMSF reports. The trustee exercises their discretion when determining the most appropriate market value<sup>89</sup> 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.
194. When preparing year end accounts, SMSF assets are required to be valued at market value each financial year.<sup>90</sup> Market value is defined in the SISA<sup>91</sup> and the ATO's guidance on the process to establish a market value is contained in its *Valuation guidelines for self-managed superannuation funds*.
195. 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.
196. 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.

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<sup>89</sup> See regulation 8.02B of the SISR.

<sup>90</sup> See regulation 8.02B of the SISR.

<sup>91</sup> See subsection 10(1) of the SISA.

197. 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, including:
- (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 debits and credits within the account; and
  - (c) the value of a member's death benefit. Material misstatement in the financial report of a SMSF when a member dies can lead to a delay in the payment of the proceeds.
198. 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.
199. 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.
200. Investments in unlisted companies or trusts may need further consideration by the auditor in order to obtain assurance that the valuation is appropriate. Difficulties may arise when the company or trust reports on an 'at cost basis'. Where the investment is not subject to a valuation process, the auditor applies professional judgement to assess the likelihood of material misstatement of the SMSF accounts. 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; and
  - (d) whether it is reasonable for the SMSF trustee to undertake a valuation of a fund asset - that is, whether 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, the trustee may not have the competency to undertake the valuation of the asset.

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

202. 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's annual return will report the Part A audit qualification.
203. 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.
204. 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*

205. The auditor of a SMSF may be able to rely on the annual investor statement<sup>92</sup> and auditor's report, that is provided in relation to an IDPS or a service organisation's report under ASAE 3402 and GS 007, as audit evidence of the operating effectiveness of controls over the services outsourced. However, the auditor may still be required to conduct substantive procedures for all material balances and transactions under ASA 330 to support their financial audit opinion. If the annual investor statement is a primary document for the preparation of the SMSF's financial report, the risk assessment performed by the auditor may depend on whether a type 2 control report is provided and the level of assurance provided by the service organisation auditor.
206. The nature of the audit procedures required to obtain sufficient appropriate audit evidence regarding a SMSF's investments 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 SMSF.
207. Investments held by an IDPS operator under the investor's holder identification number (HIN), rather than under a custodial arrangement, are able to be verified directly by the auditor, regardless of the location of the records (for example via the share registry for listed equities).
208. For investments for which recording of material balances or transactions are controlled by the service organisation, with accounting records maintained by the SMSF, and, the SMSF has access to the source documentation, the end of period statements and taxation summaries may be insufficient evidence in themselves. If coupled with evidence of the operating effectiveness of controls within the IDPS operator or service organisation, by a type 2 report, in addition to the confirmation of balances with the service organisation along with an analytical review of the SMSF's investment activity, the auditor may be able to obtain sufficient appropriate evidence.

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<sup>92</sup> IDPS operators provide investors with an annual tax statement to provide consolidated information about their investment portfolio and to assist them with the completion of their tax obligations.

209. For a standalone investment mandate, where the IDPS operator 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.
210. 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) in conjunction with:
- performance of 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.
211. Testing at the transaction level may include: valuation using independent sources, confirmation of contributions with employers, verification of benefit payments against members' records, for example personal bank statements, verification of dividend and trust distributions against independent sources, and by obtaining copies of correspondence, including advice provided to the SMSF regarding portfolio positions.
212. It may be impossible or impractical to obtain sufficient appropriate audit evidence with respect to material balances or transactions of the SMSF controlled by the IDPS or service organisation, in which case either the auditor qualifies their opinion on the basis of a limitation of scope, or issues a disclaimer of opinion if the effects or possible effects are material and pervasive. 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**

213. 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.
214. 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.
215. Prepayments are tested against cash payments and particular attention is paid to transactions with related parties to ensure they relate to a genuine expense.
216. Unpaid present entitlements (UPE) from related trusts risk being caught as a contravention of the IHA rules (Part 8 of the SISA), the arm's length rules (section 109 of the SISA) and the sole purpose test (SPT)<sup>93</sup>, if not promptly paid. See ATO Ruling *SMSFR 2009/3 Self Managed Superannuation Funds: application of the Superannuation Industry (Supervision) Act 1993 to unpaid trust distributions payable to a Self Managed Superannuation Fund* 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 distribution being paid within proximity of the declaration of

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<sup>93</sup> See section 652 of the SISA.

the distribution or whether the fund and trust have entered into a loan agreement (explicit or implicit).

## **Liabilities**

217. 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 trustee have provided for or incurred;
  - Benefits payable, including benefits arising from insurance claims; and
  - Bank overdrafts, other borrowings and related interest payable.
218. 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.
  - Accuracy, valuation and allocation – liabilities are recorded at appropriate amounts and allocated to the appropriate account.
219. Generally, SMSFs are not permitted to borrow. Permitted exceptions are set out in s67 of the SISA and include temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions surcharge,<sup>94</sup> and the settlement of securities transactions where the borrowing was unforeseen. Sections 67A and 67B of the SISA detail the further exception for limited recourse borrowing arrangements and set out the requirements that need to be met.
220. Audit risks to be considered in relation to auditing liabilities may include, but are not limited to:
- liability values being understated;
  - liabilities being omitted;
  - excessive accruals for expenses that will not be paid or which are not legitimate expenses of the SMSF; and
  - loan documents in respect of a limited recourse borrowing arrangement (LRBA) that do not specify the loan to be limited in recourse.
221. 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

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<sup>94</sup> 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.

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**

222. The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.
223. 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.
224. 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.
  - Valuation and allocation – accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.
225. 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**

226. 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<sup>95</sup> and accessing a transition to retirement<sup>96</sup> income stream<sup>97</sup> (TRIS). Usually vested benefits are disclosed in the notes to the financial report.
227. Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member concessional and non-concessional contributions (NCCs), mandated contributions (compulsory employer contributions) such as SGC or superannuation payments

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<sup>95</sup> 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.

<sup>96</sup> More information about transition to retirement is available on the ATO website [www.ato.gov.au](http://www.ato.gov.au) (search under transition to retirement).

<sup>97</sup> Other conditions of release include a terminal medical condition, financial hardship and compassionate grounds.

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.<sup>98</sup>

228. 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**

229. 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.
230. 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 over time and audit checks include identifying if the reserve has been added to since 1 July 2017.
231. Prior to 1 July 2019, anti-detriment payment reserves were utilised in order to fund 'tax saving amount(s)' in accordance with sections 295-485 of the 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.
232. 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.
233. 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 of the SISR.
234. 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.
235. Contribution reserves are not considered to be a reserve and are referred to as an 'unallocated contribution suspense account'. The use of this account allows funds to manage potential excess contributions, where a contribution is received within the month of June. Contributions

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<sup>98</sup> See regulation 5.08 of the SISR.

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.<sup>99</sup> 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<sup>100</sup> 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.

236. The trustee is required to report an unallocated contribution to the ATO via a specified form<sup>101</sup>, otherwise the member will be assessed under the excess contribution rules.
237. The ATO has issued SMSF Regulator's Bulletin [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.
238. Audit considerations for reserves include whether:
- the fund's governing rules permit the maintenance of reserves;
  - the fund has a reserve strategy;<sup>102</sup>
  - 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 (excluding 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 per cent 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.

## **Investment and Other Revenue**

239. 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.
240. The audit assertions for revenue received by a SMSF are:
- Occurrence – revenue received by the SMSF is real and has occurred.

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<sup>99</sup> See regulation 7.08 of the SISR.

<sup>100</sup> See ATO Taxation Determination TD 2013/22, which applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.

<sup>101</sup> See ATO form NAT 74851 *Request to adjust concessional contributions*.

<sup>102</sup> See subsection 52B(2)(g) of the SISA.

- 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.
- 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.

241. Audit risks to be considered in relation to auditing revenue may include:

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

### **Contributions and Transfers In**

242. 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:<sup>103</sup>

- 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 Capital Gains Tax (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.

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<sup>103</sup> See the *Self-Managed Superannuation Fund annual return* (NAT 71226).

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.

243. 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.
- Classification – contributions and transfers in have been allocated to the correct member and correctly classified as concessional or non-concessional.

244. 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 NCCs, and other contributions categories listed in paragraph 242;
- 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;<sup>104</sup>
- 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.

245. 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 pay as you go (PAYG) information analytically.

## **Expenses**

246. The typical expenses of a SMSF may include:

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

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<sup>104</sup> Contributions caps are discussed in paragraph 393 of this Guidance Statement.

- 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.

247. 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.
- Classification – expenses have been allocated to the applicable accounts or members to which they relate.

248. 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 NCCs; and
- incorrect tax treatment of an expense.

249. Ordinarily, the auditor reviews any payments made to individual trustee or corporate trustee 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.<sup>105</sup>

## **Tax Expense**

250. 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.

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<sup>105</sup> See section 17(B) of the SISA.

- Completeness – assessable income, including capital gains, received by the SMSF has been declared.
  - Accuracy and valuation– assessable income, including capital gains, allowable deductions, ECPI, 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 and 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.
  - Classification – the tax status of contributions is correctly determined. Timing differences have been correctly identified and accounted for.
251. 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 trustee of an intention to claim a personal tax deduction (concessional contributions). Deductions are available for certain payments and expenses.
252. The top marginal tax rate applies to NALI/NALE as well as funds deemed to be non-complying superfunds.
253. 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 on 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*

254. The ordinary income of a 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.
255. Ordinary income does not include:
- NCCs;
  - Income not derived;
  - Non-reversionary bonuses on life policies; and
  - Income from assets used to fund pensions.

256. 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*

257. 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.
258. 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.
259. 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 NCCs cap. In these circumstances, the auditor confirms the contribution is supported by a CGT cap election form.<sup>106</sup>
260. 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.
261. 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 the age of 55. Individuals over the age of 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.
262. 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*

263. NALI<sup>107</sup> 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 concessional. 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.

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<sup>106</sup> See ATO *CGT cap election* (NAT 71161) form and instructions.

<sup>107</sup> 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.

*Franked Dividends*

264. 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*

265. Growth in the value of most SMSF assets, is subject to CGT on their disposal, with assets purchased prior to 30 June 1988 deemed to have been 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.
266. 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 may form part of the audit working papers, and the auditor ordinarily tests that the calculation of the capital gain or loss is accurate, if any of these deferred CGT assets were sold during the reporting period under review.

*Goods and Service Tax*

267. 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 that 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 per cent and not claimable on certain expenses, such as accounting fees for the preparation of the tax return or BAS, or on audit fees.

*Deductions*

268. 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.<sup>108</sup> 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.
269. The auditor ordinarily reviews the fund activity to identify whether any NALE were incurred during the income year. NALE are expenses that are less than what might have been expected

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<sup>108</sup> 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 *Income tax: deductibility of costs of amending a superannuation fund trust deed*, which discusses the deductibility of amending a deed.

to be incurred by the fund if dealing with the other party at arm's length, including where services or goods are received at no cost.<sup>109</sup>

270. 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 under 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.<sup>110</sup>

#### *Actuarial Reports for Un-segregated Assets*

271. Where a fund does not qualify as holding 'disregarded small fund assets' 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 ECPI for the SMSF.

### **Benefits Paid**

272. Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65 years, death, physical or mental incapacity,<sup>111</sup> termination of employment, or reaching preservation age and commencing a TRIS. In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.<sup>112</sup>
273. SMSFs may pay benefits by way of a lump sum (in cash or in specie<sup>113</sup>), pension or insurance benefit.<sup>114</sup> 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).
274. 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.

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<sup>109</sup> ATO Draft Law Companion Ruling LCR 2019/D3 *Non-arm's length income – expenditure incurred under a non-arm's length arrangement* provides the ATO's views on non-arm's length income (NALI) and non-arm's length expense (NALE)

<sup>110</sup> Guidance and information on how ECPI 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](http://www.ato.gov.au) (search under ECPI).

<sup>111</sup> This can be permanent or temporary incapacity which prevents the member from engaging in gainful employment.

<sup>112</sup> 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 278-280 for further guidance on benefit splitting.

<sup>113</sup> Assuming in-specie payments are permitted by the fund's governing rules.

<sup>114</sup> 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.

- Classification – benefits paid by the SMSF have been recorded in the applicable accounts, including the applicable member’s account.
275. 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; and
  - minimum payments not made for all pensions and the maximum payment for a TRIS is exceeded.
276. 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.
277. 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*

278. 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;<sup>115</sup>
  - (e) notice by a trustee of information regarding an interest subject to a payment split;<sup>116</sup>
  - (f) payment split notice by a trustee to both member and non-member;<sup>117</sup> and
  - (g) one of the following notices by the non-member spouse to the trustee to:

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<sup>115</sup> See notice under regulation 72 of the *Family Law (Superannuation) Regulations 2001*.

<sup>116</sup> See notice under regulation 2.36C of the SISR.

<sup>117</sup> See notice under regulation 7A.03 of the SISR.

- (i) create a new interest;<sup>118</sup>
- (ii) rollover or transfer benefits;<sup>119</sup> or
- (iii) pay a lump sum where a non-member has met a condition for release.<sup>120</sup>

279. 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 of SISA 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.

280. 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*

281. 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.<sup>121</sup> 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.

282. 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,<sup>122</sup> the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

283. 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

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<sup>118</sup> See notice under regulation 7A.03C or 7A.05 of the SISR.

<sup>119</sup> See notice under regulation 7A.03D or 7A.06 of the SISR.

<sup>120</sup> See notice under regulations 7A.03E or 7A.07 of the SISR.

<sup>121</sup> ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

<sup>122</sup> Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph 312 of this Guidance Statement.

return the SMSF to a solvent position within five years, if the SMSF is technically insolvent under the SISR.<sup>123</sup> 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.<sup>124</sup>

284. 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.<sup>125</sup> 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.
285. Having considered the matters described in paragraphs 281 to 284, 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.
286. Under ASA 570, the auditor communicates to the trustee 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 305 to 309.

#### *Subsequent Events*

287. 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 trustee minutes, making enquiries of the SMSF's lawyers concerning litigation or a divorce, and making enquiries of the trustee 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.

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<sup>123</sup> See regulation 9.38(1) of the SISR.

<sup>124</sup> See regulation 9.35 of the SISR.

<sup>125</sup> See regulation 9.17 of the SISR.

288. 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 trustee decides 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*

289. If the trustee decides to wind up the SMSF, the SMSF still needs to be audited for the relevant financial year.
290. 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.
291. 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 to assess whether the bank account has been closed.

#### *Change of Auditor*

292. When a SMSFs audit is transferred from one auditor to another, the new auditor needs to adhere to the requirements of 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*

293. 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**

294. With respect to the financial audit, section 35C of the SISA requires the auditor to:

- (a) give a report to the trustee, in the approved form, on the financial operations of the entity for that year; and
  - (b) give the trustee the auditor's report in the approved form,<sup>126</sup> 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.<sup>127</sup>
295. 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.
296. 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.
297. 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*

298. Modifications to the auditor's opinion under ASA 705 may be one of the following:
- (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<sup>128</sup>.
299. 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.

#### *Qualified Opinion*

300. 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

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<sup>126</sup> The ATO approved form auditor's report is available at [www.ato.gov.au/superfunds](http://www.ato.gov.au/superfunds).

<sup>127</sup> See regulation 8.03 of the SISR.

<sup>128</sup> Recent case law *Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502; *Cam & Bear Pty Ltd v McGoldrick* [2018] NSWCA 110, indicates SMSF auditors have 'significant ability to detect and prevent loss' and 'to protect the (audit) fund against financial risks'. The Part A financial audit is undertaken in order for the auditor to express an opinion on the likelihood of material misstatement in the financial report and that audit opinion must be made by an independent auditor.

which the qualification relates. The opinion paragraph is headed “Qualified Opinion”<sup>129</sup>. An example of a qualified opinion in the context of a SMSF audit is where the auditor is not able to obtain evidence of the ‘market’ valuation of unlisted investments.

#### *Adverse Opinion*

301. 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”.

#### *Disclaimer Opinion*

302. 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”.

#### *Emphasis of Matter*

303. 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 that, 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<sup>130</sup> includes the required wording.
304. An auditor’s report may also include an emphasis of matter paragraph to highlight that:
- (a) a material uncertainty exists regarding a going concern matter that is adequately disclosed in the financial report;
  - (b) additional disclosure is required to highlight that the financial report may be potentially misleading; or
  - (c) 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*

305. An auditor’s report may include an other 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 a predecessor auditor, the type of opinion expressed, the reasons if the opinion was modified and the date of the report; or

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<sup>129</sup> See *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 per cent per cent of the loss incurred due to their negligence in not qualifying the audit report.

<sup>130</sup> 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 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.

*Communication of Audit Matters*

306. Under ASA 260, the auditor communicates matters of governance interest arising from the audit to the trustee on a timely basis, to enable the trustee to take appropriate action. Ordinarily, the auditor initially discusses with the trustee 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 trustee with an opportunity to clarify facts and issues and to provide further information.
307. The auditor is also required under ASA 260 to inform the trustee 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.
308. 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.
309. 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.
310. Under ASA 250, any non-compliance which the auditor considers to be intentional and material, is communicated to the trustee without delay. The auditor's statutory reporting responsibilities in relation to matters of non-compliance may also necessitate reporting of such matters to the trustee and the ATO under section 129 of the SISA (see paragraphs 425-432).

## **PART B – COMPLIANCE ENGAGEMENT**

311. 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.
312. 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.
313. 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.<sup>131</sup>

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<sup>131</sup> The ATO's electronic superannuation audit tool (eSAT), may provide assistance and is available on the [ATO website](#).

**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 <sup>132</sup> Part B SISA/SISR	ACR <sup>133</sup> SISA/SISR
<u>Establishment and operation of the SMSF</u>	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	
	Maintains copies of all member or beneficiary reports for a minimum of 10 years.	S.105	
	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
<u>Sole purpose</u>	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
<u>Investment considerations</u>	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)
	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
	Prohibition on charges over SMSF assets.	R.13.14	R.13.14
	Assets valued at market value	R.8.02B	R.8.02B

<sup>132</sup> Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July 2019 (NAT 11466).

<sup>133</sup> Auditor/actuary contravention report (ACR) (NAT 11239) available through the ATO's website using eSAT or by ordering a paper form.

Category	Specific Criteria	Auditor's Report <sup>132</sup> Part B SISA/SISR	ACR <sup>133</sup> SISA/SISR
Category	Specific Criteria	Auditor's Report Part B SISA/SISR	ACR SISA/SISR
<u>Benefits restrictions</u>	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	-
<u>Contributions restrictions</u>	Accepts contributions within specified restrictions.	R.7.04	R.7.04
<u>Investment returns</u>	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	-
<u>Solvency</u>	Unsatisfactory financial position.	-	S.130 <sup>134</sup>
<u>Other regulatory information</u>	Information regarding the SMSF or trustees which may assist the ATO, including compliance with other relevant SISA sections and SISR regulations.	-	Ss129S and 130A <sup>135</sup>

## Materiality

314. 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.
315. 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 trustee's 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.

<sup>134</sup> 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 regulation 9.04 of the SISR for the narrow definition of 'unsatisfactory financial position.'

<sup>135</sup> 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

316. 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.<sup>136</sup>

### *Definition of SMSF*

317. To determine if the SMSF meets the definition of a SMSF,<sup>137</sup> 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

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<sup>136</sup> See subsection 35C(2) of the SISA.

<sup>137</sup> The definition of a SMSF is in section 17A of the SISA. Also refer to ATO Ruling SMSFR 2010/2 *The scope and operation of subparagraph 17(A)(3)(b)(ii) of the SISA* and ATO ID 2010/139 *SMSFs Subparagraph 17(A)(3)(b)(i) of the SISA – tribunal appointed administrator of the plenary estate of a person with a mental disability*.

- obtaining trustee representations.

#### *Disqualified Persons*

318. An individual SMSF trustee is disqualified under the SISA<sup>138</sup> 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.
319. 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.
320. 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. 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.
321. In addition, ASIC provides details of persons disqualified from acting as 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.
322. 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 the Australian Financial Security Authority's National Personal Insolvency Index (NPII) 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*

323. 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.<sup>139</sup>
324. The SISA requires that the records be kept in the English language or a form that is readily convertible to English<sup>140</sup> 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

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<sup>138</sup> See subsection 120(1) of the SISA. Also refer to ATO ID 2011/24 *Waiver of disqualified person status – meaning of 'serious dishonest conduct'*.

<sup>139</sup> The *Trustee Declaration* is an approved form issued by the ATO (NAT 71089), available from the ATO's website at [www.ato.gov.au](http://www.ato.gov.au).

<sup>140</sup> See section 35A of the SISA.

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.

325. 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 subsection 35C(2) of the 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*

326. 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.<sup>141</sup> The auditor may obtain representations from the trustees that no such arrangement has been entered into.

#### *Investment Strategy*

327. The SISR<sup>142</sup> 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.
328. 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".
329. 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 material matters to the trustee directly.<sup>143</sup>
330. 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.

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<sup>141</sup> See section 52(2)(e) of the SISA.

<sup>142</sup> See regulation 4.09 of the SISR.

<sup>143</sup> See *Ryan Wealth Holdings Pty Ltd v Baumgartner* NSWSC [1502].

331. 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

332. The SISA<sup>144</sup> 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 ATO provides guidance on their minimum expectation for audit evidence in respect of the listed provisions in Part B of the Audit Report<sup>145</sup>. The guidance for s62 SISA states, among other things: "The auditor should check that the trust deed established the fund solely for the provision of benefits for fund members (upon their retirement or turning 65 years old) and their dependants (in the case of the member's death before retirement)".
333. 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.
334. In assessing whether a SMSF has complied with the sole purpose test, the auditor may refer to the ATO's Ruling SMSFR 2008/2<sup>146</sup> 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. The ATO has reviewed Ruling SMSFR 2008/2 and issued a decision impact statement as a result, to further clarify their position as Regulator.<sup>147</sup>

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<sup>144</sup> See section 62 of the SISA.

<sup>145</sup> See ATO website for guidance on compliance engagement requirements at <https://www.ato.gov.au/super/self-managed-super-funds/smsf-auditors/auditing-an-smsf/compliance-audit/>

<sup>146</sup> See ATO Ruling SMSFR 2008/2 *Self Managed Superannuation Funds: the application of the sole purpose test in section 62 of the Superannuation Industry (Supervision) Act 1993 to the provision of benefits other than retirement, employment termination or death benefits*.

<sup>147</sup> See *Aussiegolfa Pty Ltd (Trustee) v Federal Commissioner of Taxation* (VID 54 of 2018 VID 83 of 2018).

335. 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<sup>148</sup> contains strict regulations in relation to collectables and personal use assets. IHA are discussed further in paragraphs 348 to 351, while collectables and personal use assets are discussed further in paragraphs 343 to 347.
336. 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 subsection 62(1).
337. 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.
338. 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;<sup>149</sup>
  - loans or financial assistance to members or relatives;<sup>150</sup>
  - acquisitions from related parties;<sup>151</sup>
  - charges over assets;<sup>152</sup>
  - assignment of, or charges over, member's benefits;<sup>153</sup>
  - SMSF assets not held separately from the members' personal assets;<sup>154</sup>
  - acquisition of IHA in excess of 5 per cent of the total market value of the SMSF assets;<sup>155</sup> and

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<sup>148</sup> See regulation 13.18AA of the SISR.

<sup>149</sup> See section 109 of the SISA.

<sup>150</sup> See section 65 of the SISA.

<sup>151</sup> See section 66 of the SISA.

<sup>152</sup> See regulation 13.14 of the SISR.

<sup>153</sup> See regulations 13.12 and 13.13 of the SISR.

<sup>154</sup> See subsection 52B(2)(d) of the SISA and regulation 4.09A of the SISR.

<sup>155</sup> See Part 8 of the SISA.

- collectables and personal use assets.<sup>156</sup>

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

#### *Running a Business*

339. 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.<sup>157</sup> Although the operation of a business is not prohibited by the SISA, specific additional obligations need to be met by the fund to ensure on-going SISA compliance.
340. 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.
341. 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*

342. 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 IHA limits.<sup>158</sup> SISA 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**

343. 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*

344. 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<sup>159</sup> that are acquired by the fund on or

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<sup>156</sup> See regulation 13.18AA of the SISR.

<sup>157</sup> Also refer to ATO Ruling 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.*

<sup>158</sup> See paragraph 346 of this guidance statement.

<sup>159</sup> Collectables and personal use asset list contained in regulation 13.18AA(1) of the SISR.

after 1 July 2011 are subject to restrictions<sup>160</sup> contained in the regulation 13.18AA of the SISR including that:

- They must not be leased to any related party<sup>161</sup> 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;
- Transfers of ownership to related parties must be done at market value<sup>162</sup> determined by a qualified independent valuer<sup>163</sup>; and
- The auditor obtains sufficient appropriate audit evidence that trustees have complied with the restrictions on collectable and personal use assets of the fund.

345. 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.<sup>164</sup> 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.

346. 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 IHA<sup>165</sup>, in which case the IHA limits will apply. Furthermore, the SISR prohibits the use of such investments by members and related parties of the fund.<sup>166</sup>

347. 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*

348. An IHA 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.<sup>167</sup> A related trust is a trust that a member or employer-sponsor controls.<sup>168</sup> There are a number of exceptions to the definition

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<sup>160</sup> 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.

<sup>161</sup> Related party is defined in subsection 10(1) of the SISA.

<sup>162</sup> Market value is defined in subsection 10(1) of the SISA.

<sup>163</sup> See the ATO's *Valuation guidelines for self-managed superannuation funds*, available on the ATO's website:  
<http://www.ato.gov.au/Super/Self-managed-super-funds>

<sup>164</sup> See regulation 13.18AA(6) of the SISR.

<sup>165</sup> See guidance on in-house assets provided in paragraphs 348 to 351 of this Guidance Statement.

<sup>166</sup> See regulation 13.18AA(6) of the SISR.

<sup>167</sup> Defined in subsection 10(1) of the SISA. Also refer to ATO Ruling 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*.

<sup>168</sup> Defined in subsection 10(1) of the SISA.

of IHA and transitional provisions included in Part 8 of the SISA.<sup>169</sup> The auditor needs to be familiar with these exceptions when considering IHA requirements.

349. The SISA has strict limits on the level of IHA permitted to be held by the SMSF. The market value of the IHA must not exceed 5 per cent of the total market value of the SMSF's assets at the time of acquisition<sup>170</sup> and at year end.<sup>171</sup> Also, the trustees are prohibited from acquiring an IHA that would cause the total of all IHA to exceed this 5 per cent ratio. The auditor examines the investments of the SMSF to identify potential IHA to ensure that the legislative limits are not exceeded, either when they were acquired or at year end.
350. 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 IHA, or by concealing the related party connection. Such actions are prohibited under the SISA.<sup>172</sup>
351. If the level of IHA exceeds 5 per cent, the trustee is required to develop a written plan to reduce the level below 5 per cent by the end of the following income year. Where a SMSF has IHA that are greater than the 5 per cent 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*

352. Trustees and investment managers are prohibited, under the SISA,<sup>173</sup> 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) IHA within the 5 per cent limit;
  - (d) life insurance policies that are not acquired from a member or relative; or
  - (e) assets which are ordinarily IHA but are exempted by the operation of subsection 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 per cent limit.
353. Business real property<sup>174</sup> is land and buildings used wholly and exclusively for business purposes.<sup>175</sup> 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 (for example, for a motel); or the residence is on less than two

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<sup>169</sup> See also regulations 13.22B, 13.22C and 13.22D of the SISR. ATO Ruling SMSFR 2009/1 *Business real property for the purposes of the SISA* is also relevant to the definition of business real property and the exceptions under S71(1) of the SISA.

<sup>170</sup> See section 83 of the SISA.

<sup>171</sup> See section 82 of the SISA.

<sup>172</sup> See section 85 of the SISA.

<sup>173</sup> See section 66 of the SISA.

<sup>174</sup> Defined in subsection 66(5) of the SISA. Refer to ATO Ruling SMSFR 2010/1 *The application of subsection 66(1) of the SISA to the acquisition of an asset by a SMSF from a related party*.

<sup>175</sup> See ATO Ruling SMSFR 2009/1.

hectares of a larger parcel of land which is predominately used in a primary production business.

354. Assets which would ordinarily be defined as IHA but which are exempt under the provisions of subsection 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 IHA, an investment in a widely held unit trust, and non-g geared unit trusts which meet the other requirements of the SISR.<sup>176</sup>
355. 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*

356. The SISA<sup>177</sup> 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.
357. 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<sup>178</sup> 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*

358. The trustees are required<sup>179</sup> 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.

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<sup>176</sup> See regulation 13.22A - 13.22D of the SISR

<sup>177</sup> See section 109 of the SISA.

<sup>178</sup> See subsection 109(1)(b) of the SISA.

<sup>179</sup> See subsection 52B(2)(d) of the SISA, and Regulation 4.09A of the SISR.

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.

359. Where there has been a change in trustees, the auditor generally checks that the ownership documents for fund assets have been updated.
360. 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*

361. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives<sup>180</sup> 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.<sup>181</sup>
362. 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.
363. 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*

364. SMSFs are not permitted to borrow money,<sup>182</sup> with the exceptions<sup>183</sup> 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 per cent 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 per cent 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

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<sup>180</sup> See section 65 of the SISA. Also refer to ATO Ruling 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 subsection 65(1)(b) of the SISA.*

<sup>181</sup> 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.

<sup>182</sup> See subsection 67(1) of the SISA. Also refer to ATO Ruling SMSFR 2009/2 *The meaning of "borrow money" or "maintain an existing borrowing of money" for the purposes of section 67 of the SISA.*

<sup>183</sup> See sections 67 and 67(A) of the SISA.

- (c) that are part of a complying limited recourse borrowing arrangement.<sup>184</sup>
365. 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.
366. 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.
367. 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.
368. Where the SMSF has derivative instruments with 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.
369. 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 or 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.
370. 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.
371. For limited recourse borrowing arrangements<sup>185</sup> entered into by superannuation funds on or after 7 July 2010, or previous subsection 67(A) of the SISA debt arrangements that have been refinanced after 7 July 2010:

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<sup>184</sup> See ATO Ruling SMSFR 2012/1 *Limited recourse borrowing arrangements – application of key concepts*.

<sup>185</sup> See sections 67A and 67B of the SISA.

- (a) the asset within the arrangement can only be replaced by a different asset<sup>186</sup> in very limited circumstances specified in the law;
  - (b) superannuation fund trustees cannot borrow to improve an asset<sup>187</sup> (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.<sup>188</sup>
372. 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,<sup>189</sup> 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.

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<sup>186</sup> 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.

<sup>187</sup> Table 1 in ATO Ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.

<sup>188</sup> See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.

<sup>189</sup> See subsection 67A(1) of the SISA.

- For limited recourse borrowing arrangements entered into from 1 July 2010, determination of whether:
  - a replacement to the asset has been made contrary to the law;
  - the fund has not borrowed to improve an asset in the arrangement;
  - the trust asset is a single asset or identical assets that have the same value, for example ordinary shares; and
  - there is no charge over the asset except per the limited recourse arrangement.<sup>190</sup>

#### *Charges Over Assets*

373. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility<sup>191</sup> 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.
374. 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.
375. 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.
376. 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*

377. The trustees are required to value fund assets at market value.<sup>192</sup> See paragraphs 192 to 203 for requirements and explanatory guidance on asset valuations.

### **Benefit Restrictions**

378. The member's ability to receive a benefit normally depends on:
- (a) the type of benefit the member has accumulated in the SMSF;

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<sup>190</sup> See ATO Ruling 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.

<sup>191</sup> 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.

<sup>192</sup> See regulation 8.02B of the SISR.

- (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.<sup>193</sup>

#### *Minimum Benefits*

379. The trustees are required<sup>194</sup> to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred.

#### *Payment of Benefits*

380. 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<sup>195</sup> 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,<sup>196</sup> severe financial hardship and compassionate grounds which are assessed by the ATO in accordance with regulatory requirements.<sup>197</sup>
381. For pension payments, the auditor ensures that any payments meet the minimum and maximum,<sup>198</sup> 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<sup>199</sup> which is calculated by applying a percentage rate, dependent on the member's age<sup>200</sup>, 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.
382. Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year<sup>201</sup> and the income from assets that support the pension will not be tax exempt for the year.<sup>202</sup> The ATO guidelines for SMSFs *Funds – starting and stopping a pension [superannuation income stream]*<sup>203</sup> 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.
383. 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 is 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

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<sup>193</sup> More information is available on the ATO's website at [www.ato.gov.au](http://www.ato.gov.au) (search under 'paying benefits').

<sup>194</sup> See regulation 5.08 of the SISR.

<sup>195</sup> Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.

<sup>196</sup> 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.

<sup>197</sup> Regulation 6.19A SISR.

<sup>198</sup> Maximum payments exist for transition to retirement income streams (TRIS)s.

<sup>199</sup> See sub-regulation 1.06(9A)(a) of the SISR.

<sup>200</sup> See schedule 7 of the SISR.

<sup>201</sup> ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and, consequently, when a superannuation income stream is payable.

<sup>202</sup> See sub-regulation 1.06(9A) and Schedule 7 of SISR.

<sup>203</sup> See ATO's guidelines for SMSFs – *Funds: starting and stopping a pension* which can be found on the ATO's website [www.ato.gov.au/Super/Self-managed-super-funds](http://www.ato.gov.au/Super/Self-managed-super-funds) (webpage only).

- superannuation fund for immediate cashing as a new death benefit pension. However, the trustee is required to consider the terms of the fund's trust deed, together with any member nominations that are on file, when determining how the death benefit is to be paid.
384. 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.
385. 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.
386. 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.
387. 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.
388. 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 that 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.
389. 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 circumstances where a SMSF has paid a death benefit during the period under review, 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.
390. 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.
391. 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*

392. 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,<sup>204</sup> or a charge over, or in relation to, a member's benefits.<sup>205</sup> Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

**Contribution Restrictions**

393. 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.<sup>206</sup> 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 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.
394. The auditor tests that the SMSF has accepted contributions in accordance with the SISR,<sup>207</sup> which are either:
- (a) mandated employer contributions received irrespective of the member's age, such as SGCs, 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 (applying a 'work test') during the financial year in which the contribution is made;<sup>208</sup>
    - (iii) the member is over 65 years but is under 75 years 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, this is a once-off opportunity; or
    - (iv) 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;

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<sup>204</sup> See regulation 13.12 of the SISR.

<sup>205</sup> See regulation 13.13 of the SISR.

<sup>206</sup> See ATO Tax Ruling TR 2010/1 *Income tax: Superannuation contributions*.

<sup>207</sup> See regulation 7.04 of the SISR.

<sup>208</sup> 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.

- (d) contributions received at a later date in respect of a period in which the member met the age restrictions; or
- (e) downsizer contributions if the member is 65 years or older and eligible.

395. The auditor also tests that contributions are:

- (a) within contribution caps specified in the SISR and the ITAA<sup>209</sup>, being:
  - (i) if the member is 64 years or less on 1 July of the financial year – three times the amount of the NCCs cap; or
  - (ii) if the member is 65 years but less than 75 years on 1 July of the financial year – the NCCs cap; and
- (b) for a member for whom a tax file number (TFN) has been supplied.

396. The NCC cap is 4 times the concessional contribution cap, or zero 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.

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

<b>Total super balance at start of year</b>	<b>Maximum NCCs using bring-forward</b>
< \$1.4 million	3 x the single year
\$1.4 million - \$1.5 million	2 x the single year
\$1.5 million - \$1.6 million	1 x the single year
+ \$1.6 million	\$0

398. If a member has a TSB below \$1.4 million at the start of the year and 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.

399. 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 TFN has been provided;
- the amount contributed; and
- the timing of when the contribution was made.

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<sup>209</sup> ITAA 1997 section 292-85(2).

400. Ordinarily, the auditor checks to see that the classification of contributions are appropriate and allocated to the correct member account (see paragraphs 242 to 245 of this Guidance Statement).

*Returning/refunding contributions*

401. There are very limited circumstances where a SMSF trustee can return a contribution to a member or employer, such as:
- (a) A contribution received from a member who does not satisfy the age restrictions.
  - (b) A member contribution received for whom the fund does not have a TFN, which has to be returned to the contributor within 30 days of becoming aware that the amount being received is inconsistent with the regulations<sup>210</sup>. The fund does not have to return such contributions if the member's TFN is provided for superannuation purposes, within 30 days of the amount being received by the trustee of the fund. Contributions are returned in accordance with the 'law of restitution'<sup>211</sup>. The limited examples of the operation of the law of restitution include:
    - (i) an amount paid to a superannuation fund by mistake and was intended for a different purpose; and
    - (ii) an amount is paid to a superannuation fund that is greater than intended, for example, because of a clerical, transcription or arithmetic error.
402. A SMSF is not able to 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<sup>212</sup>
403. Audit procedures on returning or refunding of contributions may include checking cash movements and validating receipts and payments along with substantiation of contributions received from employment arrangements.
404. 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*

405. In-specie contributions are contributions to a SMSF where a physical asset (for example, a commercial property) or an intangible asset (for example, a share or an option) are contributed to the SMSF on behalf of a member without any cash being exchanged.
406. 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.
407. 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;

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<sup>210</sup> See sub-regulation 7.04(4)(a) of the SISR.

<sup>211</sup> See ATO ID 2010/104 *Excess contributions tax: restitution of a 'mistaken' contribution*, which includes case citations.

<sup>212</sup> The 'fund-capped contributions' limit (former regulation 7.04(3) of the SISR) has been repealed for non-concessional contributions from 1 July 2017.

- (b) valued at market value; and
- (c) not in breach of any other SISA prohibition.

*Downsizer contribution*

408. A downsizer contribution received from a member over the age of 65 must be accompanied by a *Downsizer contribution into super* form<sup>213</sup>. The form ensures the contribution is not counted towards the member's contribution caps, enables a member to make a contribution without satisfying the work test, and permits a member with a TSB in excess of \$1.6 million, to contribute up to \$300,000 into super.
409. Where downsizer contributions are accepted, the auditor assesses whether:
- (a) the fund's trust deed permits downsizer contributions;
  - (b) there is sufficient evidence to confirm the member's eligibility to make the contribution; and
  - (c) the member has not utilised the downsizer contribution opportunity previously.
410. Key risk areas relating to downsizer contributions 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 on or after 1 July 2018.

*Use of Reserves*

411. Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the trustee is appropriate for the fund within the requirements of the SISA<sup>214</sup> and SISR, in accordance with the fund's trust deed and investment strategy, and ATO guidance provided in respect of the use of reserves.<sup>215</sup>
412. If the reserve was established prior to 1 July 2017, the ATO has indicated 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.<sup>216</sup> This includes manipulation of the 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 the ECPI percentage.
413. Funds maintaining investment reserves should consider the ongoing appropriateness of these reserves, 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.<sup>217</sup>
414. For contributions held in an unallocated contribution suspense account (formerly a contributions reserve), the auditor checks to ensure the amounts have been allocated to

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<sup>213</sup> See ATO form Downsizer contribution into superannuation (NAT 75073).

<sup>214</sup> Section 115 of the SISA.

<sup>215</sup> SMSF Regulator's Bulletin SMSFRB 2018/1 *The use of reserves by self-managed superannuation funds*.

<sup>216</sup> SMSFRB 2018/1.

<sup>217</sup> See sub-regulation 5.03(1) of the SISR.

members' accounts within 28 days after the end of the month in which the contributions were received.

415. Allocations from other reserves will be classified as concessional contributions unless the allocation to member's accounts is less than 5 per cent 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.<sup>218</sup> 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 ACR.
418. Under the SISR,<sup>219</sup> 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 of the 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 has been included to clarify that, when an auditor provides information about a fund or trustee in Section G of the ACR, they are consenting to the disclosure of their identity to the SMSF trustee. If an auditor does not wish for 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 on controls 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 the SISA. To address

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<sup>218</sup> See sub-regulation 5.03(2) of the SISR.

<sup>219</sup> See regulation 9.04 of the SISR.

the other compliance requirements, the auditor requests the service organisation to confirm that the compliance obligations have been met, for example, confirmation that:

- (a) the assets are held by the fund trustee, in trust for the fund;
- (b) 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) 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;<sup>220</sup>
  - (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;<sup>221</sup> or

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<sup>220</sup> 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). See [www.ato.gov.au/Forms](http://www.ato.gov.au/Forms).

<sup>221</sup> The ACR instructions (NAT 11299) and the ACR (NAT 11239) are approved forms and can be obtained through the ATO's website at [www.ato.gov.au/Forms](http://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 breaches (contraventions) appropriately to the ATO. See [https://www.ato.gov.au/Calculators-and-tools/Electronic-super-audit-tool/?=redirected\\_esat](https://www.ato.gov.au/Calculators-and-tools/Electronic-super-audit-tool/?=redirected_esat) for further details.

- (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.<sup>222</sup>

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 on the 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.

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<sup>222</sup> See 'Solvency' at paragraphs 417-418 of this Guidance Statement.

## Appendix 1

(Ref: Para. 64)

### EXAMPLE OF AN ENGAGEMENT LETTER FOR THE AUDIT OF A SELF-MANAGED SUPERANNUATION FUND

*The following example 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.<sup>223</sup>

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our engagement 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,

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<sup>223</sup> 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 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 assurance procedures to obtain 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.<sup>224</sup> 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

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<sup>224</sup> If the SMSF is a reporting entity, or from 1 July 2021 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 (including Independence Standards)*, 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 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.<sup>225</sup>

*[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. However, our audit files may 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 compliance engagement 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.

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<sup>225</sup> The auditor should retain an original hard copy in the working papers.

*[Limitation of liability]*<sup>226</sup>

As a practitioner/firm participating in a scheme approved under Professional Standards 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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<sup>226</sup> Applicable to participants in a limitation of liability scheme. Accounting Professional and Ethical Standard APES 305 *Terms of Engagement*, issued by APESB (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 Standards Legislation to advise the client that the member's liability may be limited under the scheme. A new Professional Standards Scheme commenced across Australia on 23 December 2019, replacing the previous Scheme, which concluded on 22 December 2019.

## Appendix 2

(Ref: Para. 139)

### 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.<sup>227</sup> 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

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

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<sup>227</sup> If the SMSF is a reporting entity then it will be required to prepare a GPFR 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 SISA].

An individual is a disqualified person if they:

- have been convicted of an offence involving dishonest conduct in any country;
- have 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 SMSF becomes, a disqualified person, they must immediately inform the ATO Commissioner in writing, and must resign as a trustee of the SMSF as soon as practicable.

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, it 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.

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. We have ensured the assets of the Fund have always been invested in line with this strategy. 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 report 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;
- 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.

**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 report in order to ensure the financial report is 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 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.]

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]

## Appendix 3

(Ref: Para. 74)

## 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
<b>A</b>	<b>ESTABLISHMENT AND EXECUTION</b>
<b>A.1</b>	Is the date of establishment of the SMSF recorded?
<b>A.2</b>	Has the trust deed been: <ul style="list-style-type: none"> <li>• Properly executed?</li> <li>• Signed by all the members who are individual trustees?</li> <li>• Witnessed?</li> <li>• Dated?</li> <li>• Stamped (if required)?</li> </ul>
<b>A.3</b>	Do the rules incorporate the SISA, SISR and applicable taxation rules?
<b>A.4</b>	Does the deed outline the core and ancillary purposes of the SMSF?
<b>A.5</b>	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?
<b>A.6</b>	Does the deed have a clause which deems the appropriate legislation into or out of the deed to allow the SMSF to remain complying?
<b>B</b>	<b>AMENDMENTS TO THE DEED</b>
<b>B.1</b>	Does the deed allow amendments?
<b>B.2</b>	Has the trust deed been amended since the last audit? If so: <ul style="list-style-type: none"> <li>• Has the deed amendment been properly executed?</li> <li>• Is confirmation of the deed's compliance with SISA and SISR required from the solicitor or other party involved in the amendment?</li> <li>• Is the amendment signed off by the current trustees?</li> <li>• Could the amendments impact the audit?</li> </ul>
<b>C</b>	<b>TRUSTEE AND MEMBERSHIP</b>
<b>C.1</b>	Does the trust deed specify who may be a trustee? Either: <ul style="list-style-type: none"> <li>• Two or more individual trustees; or</li> <li>• A trustee company.</li> </ul>
<b>C.2</b>	Does the deed specifically identify the trustee as either individuals or a corporate entity?
<b>C.3</b>	Are all individual trustees or directors of the trustee company required to be members?

Ref	Questions to be addressed in examining the trust deed
C.4	Does the deed permit members to be <ul style="list-style-type: none"> <li>• A non-working spouse?</li> <li>• A retired person?</li> <li>• A child?</li> </ul>
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? <ul style="list-style-type: none"> <li>• No member of the SMSF is an employee of another member, unless related.</li> <li>• No trustee receives remuneration for their services to the SMSF in their capacity as trustee.</li> </ul>
C.8	Does the trust deed contain the trustee covenants in s.52B of the SISA?
<b>D</b>	<b>AUDIT AND FINANCIAL REPORTS</b>
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 2021 does the deed specify that the financial report is to be prepared in accordance with the AAS? If so, the fund is required to prepare GPFR.
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?
<b>E</b>	<b>CONTRIBUTIONS</b>
E.1	Does the deed allow: <ul style="list-style-type: none"> <li>• Concessional contributions, including: <ul style="list-style-type: none"> <li>- Employer contributions, including contributions made pursuant to a salary sacrifice agreement?</li> <li>- Member contributions for which a tax deduction is claimed?</li> </ul> </li> <li>• Non-concessional contributions (NCCs), including: <ul style="list-style-type: none"> <li>- Member contributions for which no tax deduction is claimed?</li> <li>- Eligible spouse contributions?</li> </ul> </li> <li>• Downsizer contribution</li> <li>• Contributions in respect of minors?</li> <li>• Rollovers and transfers in?</li> <li>• Government co-contributions?</li> <li>• Contribution splitting to a spouse?</li> <li>• Contributions by members who are under 65 and not working?</li> <li>• Contributions by members who are working part-time and are over 65 and under 75?</li> <li>• Mandated contributions to be accepted at any age?</li> <li>• Contribution splitting arrangements pursuant to family law matters?</li> <li>• Unused concessional cap carry forward – ‘catch-up contributions’</li> </ul>
E.2	Does the deed allow for <i>in-specie</i> 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 preservation rules and conditions of release?
<b>F</b>	<b>BENEFIT PAYMENTS</b>
F.1	Does the SMSF require compulsory cashing of the members balance at a specific age? <p>* 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.</p>
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?
F.4	Does the deed provide authority between death benefit nominations and reversionary pensions?

Ref	Questions to be addressed in examining the trust deed
F.5	Does the deed include specific provisions relating to the payment of death benefits?
<b>G</b>	<b>PENSIONS</b>
G.1	Does the deed expressly allow for payment of pensions by the SMSF, including*: <ul style="list-style-type: none"> <li>• Account based pensions.</li> <li>• TRIS, including the auto conversion to a retirement phase TRIS following a nil cashing restriction trigger event.</li> <li>• Reversionary beneficiaries to be nominated.</li> <li>• Allocated pensions.</li> <li>• Term allocated or market linked or growth pensions.</li> <li>• Non-complying lifetime or fixed term pensions.</li> </ul> <p>* This list includes a number of pensions which may no longer be permitted but, if already established, may continue being paid.</p>
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?
<b>H</b>	<b>RESERVES (If applicable)</b>
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?
<b>I.</b>	<b>INVESTMENTS</b>
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?
<b>J</b>	<b>BORROWINGS</b>
J.1	Does the deed prohibit borrowings?
J.2	Does the deed permit borrowing in specific circumstances, including: <ul style="list-style-type: none"> <li>• Temporary borrowings which are required for the payment of member benefits, short term settlement of securities or superannuation contributions surcharges (no longer levied)?</li> <li>• Borrowings for limited recourse borrowing arrangements?</li> </ul>
<b>K</b>	<b>WINDING-UP</b>
K.1	Does the deed provide for the winding-up of the SMSF?

## Appendix 4

(Ref: Para. 79)

## 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<sup>228</sup>.*

Ref	Audit Procedure
<b>A</b>	<b>ENGAGEMENT ACCEPTANCE</b>
<b>A.1</b>	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit, including: <ul style="list-style-type: none"> <li>• Clearance from previous auditor on new engagements.</li> <li>• The firm has the appropriate resources and expertise to complete the engagement in the required time.</li> <li>• Confirmation of independence of the engagement partner and each audit team member.</li> </ul>
<b>A.2</b>	Confirm that an engagement letter, that is appropriately scoped to cover this audit, has been issued and signed by the trustee prior to the completion of the audit.
<b>A.3</b>	A client acceptance or retention assessment has been undertaken.
<b>B</b>	<b>AUDIT PLANNING</b>
<b>B.1</b>	Obtain a copy of the following documents before commencing the audit: <ul style="list-style-type: none"> <li>• A signed copy of the Fund's governing rules.</li> <li>• Signed audited financial reports for the prior year, including the signed prior year's auditor's report.</li> <li>• Minutes/resolutions of trustee meetings.</li> <li>• Copy of the fund's investment strategy.</li> </ul>
<b>B.2</b>	Prepare an audit strategy and audit plan for this engagement addressing, as a minimum, the following matters: <ul style="list-style-type: none"> <li>• Client profile, audit and reporting arrangements.</li> <li>• Audit approach <ul style="list-style-type: none"> <li>- Nature: <ul style="list-style-type: none"> <li>○ Controls testing, including use of an auditor's report available for key service organisations.</li> <li>○ Substantive testing – inspection, observation, enquiry, confirmation, recalculation, re-performance and analytical review.</li> </ul> </li> <li>- Timing.</li> <li>- Extent – fully substantive, sampling, analytical review or representations.</li> <li>- Resources, including extent of direction and supervision.</li> </ul> </li> </ul> <p>Consider interviewing the trustees and/or their advisors, prior to and during the development of the audit plan.</p>

<sup>228</sup> Auditor guidance and information for use in conducting the compliance engagement, including the ATO's electronic superannuation audit tool (eSAT), is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors>.

Ref	Audit Procedure
B.3	<p>Complete a risk assessment and determine preliminary materiality levels, covering:</p> <ul style="list-style-type: none"> <li>• Risk assessment <ul style="list-style-type: none"> <li>- Current period events.</li> <li>- Fraud risks.</li> <li>- Control environment.</li> <li>- Computer/IT environment.</li> <li>- Materiality.</li> </ul> </li> </ul>
B.4	<p><u>Regulatory matters</u></p> <ul style="list-style-type: none"> <li>• Before commencing the audit, confirm that the SMSF is an ATO regulated SMSF on Super Look Up: <a href="https://superfundlookup.gov.au/">https://superfundlookup.gov.au/</a></li> <li>• Place copy of the confirmation on the audit file.</li> </ul>
C	<b>FINANCIAL REPORT AND DISCLOSURE</b>
C.1	<p><u>Clerical accuracy and note references</u></p> <p>Check that:</p> <ul style="list-style-type: none"> <li>• The financial report includes an operating statement and statement of financial position, or their equivalent, and notes to the financial statements.</li> <li>• The table of contents or index agrees to the financial report, including the page numbers and content.</li> <li>• The footnotes refer to the notes to the financial statements and do not mention compilation reports or 'unaudited' information.</li> <li>• The audit report is situated appropriately in the financial report so as not to suggest that members' statements or other information have been audited.</li> <li>• Prior period comparatives agree to those from the prior year signed financial report.</li> <li>• Additions in the financial report are correct.</li> <li>• The notes to the financial statements cross-reference correctly to and from the operating statement and statement of financial position.</li> </ul>
C.2	<p><u>Opening Balances - new engagements</u></p> <ul style="list-style-type: none"> <li>• Review the most recent audited financial report, and the predecessor auditor's report for any information relevant to opening balances.</li> <li>• Determine whether the opening balances reflect the application of the described accounting policies.</li> <li>• 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: <ul style="list-style-type: none"> <li>- Consider reviewing the previous auditor's audit work papers to obtain evidence regarding opening balances.</li> <li>- Evaluate whether audit procedures in the current period provide evidence in relation to opening balances.</li> <li>- Consider performing specific audit procedures to obtain evidence regarding opening balances.</li> </ul> </li> <li>• Consider the impact of the prior period's modification (if applicable) to the opinion on the current period's financial report.</li> <li>• 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.</li> </ul>
C.3	<p><u>Accounting policies</u></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Determine whether the accounting policies in relation to assets, contributions, member entitlements and reserves meet the requirements of the SISA and SISR.</li> <li>• 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.</li> <li>• New funds, and funds where the trust deed has been amended, from 1 July 2021 must be reviewed to ensure the financial report is not required to be prepared in accordance with AAS which would require a GPFR to be prepared.</li> </ul>
D	<b>UNDERLYING ACCOUNTING RECORDS</b>

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

Ref	Audit Procedure
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	<b>CASH</b>
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 <i>bona fide</i> and correctly recorded and authorised.
E.4	Review bank reconciliation at year end: <ul style="list-style-type: none"> <li>Follow up and investigate large, unusual or recurring reconciling items.</li> <li>Follow up uncleared deposits and unpresented cheques ensuring correct cut off.</li> <li>Trace unpresented cheques to bank statement subsequent to year end.</li> </ul>
E.5	Where bank accounts are significant to the audit you should gain sufficient appropriate audit evidence, that may include: <ul style="list-style-type: none"> <li>Confirming the bank balance by way of a bank confirmation.</li> <li>Obtaining 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.</li> <li>Sighting original bank statements and subsequent redemptions for term deposits.</li> <li>Seeking explanations for any material differences.</li> <li>Checking for any debit balances, undisclosed liabilities and security for borrowings.</li> <li>Reviewing substantial entries and tracing back to source (contributions, asset transactions, benefit payments).</li> </ul>
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	<b>INVESTMENTS</b>
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.
F.3	<u>Investor Directed Portfolio Services (IDPS) (WRAP accounts)</u> <ul style="list-style-type: none"> <li>Obtain the relevant auditor's report issued in accordance with ASAE 3402.</li> <li>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.</li> <li>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).</li> <li>Check that there is no double counting of assets such as the SMSF bank account or distributions receivable.</li> <li>Obtain where data has been transmitted via the use of data feeds, an ASAE 3402 type 2 Assurance report in respect of the process and controls operating effectiveness.</li> </ul>
F.4	<u>Fixed Interest Securities (including term deposits)</u>

Ref	Audit Procedure
	<ul style="list-style-type: none"> <li>Complete the following for each fixed interest security, including debentures and bonds, held by the SMSF at the end of the period: <ul style="list-style-type: none"> <li>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.</li> <li>Agree the value of the fixed interest securities at period end.</li> <li>For bonds, either confirm the net market value at period end with the originator of the security, or with published market prices.</li> <li>For unlisted non-transferable debentures, agree the net market value with the face value.</li> </ul> </li> <li>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.</li> <li>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).</li> </ul>
F.5	<p><u>Property</u></p> <ul style="list-style-type: none"> <li>Complete property searches for all real estate investments owned by the SMSF.</li> <li>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.</li> <li>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 this checklist of illustrative audit procedures.</li> <li>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 <i>Valuation guidelines for self-managed superannuation funds</i>.</li> <li>Review the method used to value the property, including if the trustees have relied on an independent market appraisal or valuation, and obtain a copy of the valuation and confirm that: <ul style="list-style-type: none"> <li>The value is correctly reflected in the financial report.</li> <li>The valuation/appraisal refers to the correct property.</li> <li>The valuation was based on reasonable assumptions and is current.</li> <li>The valuation does not take into account redemption costs, other than any GST payable on sale which should be removed from the value.</li> <li>If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal.</li> <li>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).</li> <li>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.</li> </ul> </li> <li>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.</li> </ul>
F.6	<p><u>Listed Securities</u></p> <p>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.</p> <ul style="list-style-type: none"> <li>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.</li> <li>Agree the number of securities held at period end to the share registry or other appropriate sources.</li> <li>Confirm the closing market price of the securities at the period end against an independent source.</li> <li>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).</li> <li>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.</li> </ul>

Ref	Audit Procedure
F.7	<p><u>Widely Held Unlisted Unit Trusts and Managed Funds</u></p> <p>These are arm's length, professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices.</p> <ul style="list-style-type: none"> <li>• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: <ul style="list-style-type: none"> <li>- The number of securities held at period end.</li> <li>- 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.</li> <li>- 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).</li> <li>- Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported.</li> </ul> </li> <li>• 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.</li> </ul>
F.8	<p><u>Unlisted Closely Held Unit Trusts</u></p> <p>These can be related trusts that may require additional audit procedures to confirm ownership, value and compliance with the SISR and SISA.</p> <ul style="list-style-type: none"> <li>• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: <ul style="list-style-type: none"> <li>- The number of units held at period end.</li> <li>- 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</li> </ul> </li> <li>• 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: <ul style="list-style-type: none"> <li>- Obtaining documentary evidence to support the valuation.</li> <li>- 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.</li> <li>- 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).</li> <li>- 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.</li> </ul> </li> </ul> <p>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.</p>
F.9	<p><u>Pooled Superannuation Trusts and Life Insurance Policies</u></p> <ul style="list-style-type: none"> <li>• Sight original statements issued by the product provider, or obtain a confirmation directly from the product provider at period end.</li> <li>• Confirm that the investment is in the correct name.</li> <li>• Confirm the number of units and value of the investment at period end.</li> <li>• 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).</li> </ul>

Ref	Audit Procedure
F.10	<p><u>Assets subject to Limited Recourse Borrowing/ Arrangements</u></p> <ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>- 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.</li> <li>- Confirm that the asset is held in trust for the SMSF</li> <li>- Confirm the deposit for the acquisition was paid from the SMSF cash balance.</li> <li>- Confirm the borrowing has only been used to maintain and repair the asset (not improve the asset) or applied to refinance the borrowing.</li> <li>- If the asset was replaced, confirm the following: <ul style="list-style-type: none"> <li>○ A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or</li> <li>○ A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or</li> <li>○ Is as a result of a corporate action</li> </ul> </li> <li>- Confirm that the SMSF has an option to acquire the legal ownership of the asset on payment of the final instalment.</li> <li>- Confirm that the lender's rights are limited in recourse against the fund trustee, to that asset.</li> <li>- 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.</li> <li>- For non-bank loan arrangements, review the loan agreement and check whether the terms are in accordance with the 'safe-harbour' guidelines detailed in ATO Practical Compliance Guidelines PCG 2016/5 <i>Income tax – arm's-length terms for limited recourse borrowing arrangements established by self-managed superannuation funds</i>, including annual interest rate updates published by the ATO, and that the terms have been honoured. The safe-harbour terms provide a standard to demonstrate that the arrangement is at 'arm's length' and thereby not subject to the non-arm's length income (NALI) level of tax.</li> </ul> </li> <li>• 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 disclosures to ensure it appropriately reflects the position of the arrangement.</li> </ul>

Ref	Audit Procedure
<b>F.11</b>	<p><u>Collectables and Personal Use Assets</u></p> <ul style="list-style-type: none"> <li>If the asset is a type that does not have any form of title, obtain evidence to confirm existence and ownership including: <ul style="list-style-type: none"> <li>Minutes or resolution relating to the acquisition of the asset.</li> <li>Invoice and evidence of payment from the SMSF for the purchase of the asset.</li> <li>Sighting the asset.</li> </ul> </li> <li>For all collectibles and personal use assets, obtain evidence of: <ul style="list-style-type: none"> <li>Insurance policy or premium payment for insurance of the asset.</li> <li>Lease documents, if leased to another party.</li> <li>Storage arrangements.</li> <li>Review the personal property securities register to ensure the asset(s) isn't encumbered. Retain on audit file.</li> </ul> </li> <li>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: <ul style="list-style-type: none"> <li>Obtaining documentary evidence to support the valuation.</li> <li>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.</li> <li>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).</li> <li>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).</li> </ul> </li> </ul>
<b>G</b>	<b>RECEIVABLES AND PREPAYMENTS</b>
<b>G.1</b>	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.
<b>G.2</b>	Obtain details of other receivables and ensure that they are correctly accounted for.
<b>G.3</b>	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.
<b>G.4</b>	If the amount is receivable from a related party, check that the disclosures are appropriate, and review this further as part of your compliance engagement.
<b>G.5</b>	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.
<b>G.6</b>	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 investor statement.
<b>H</b>	<b>LIABILITIES</b>
<b>H.1</b>	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.
<b>H.2</b>	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
<b>H.3</b>	Review ageing of liabilities/payables and comment on any delay in payment.
<b>H.4</b>	Vouch prior year payables and accruals to payments during the year.
<b>H.5</b>	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
<b>H.6</b>	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
<b>H.7</b>	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).
<b>I</b>	<b>MEMBER'S ENTITLEMENTS / ACCRUED BENEFITS</b>

Ref	Audit Procedure
<b>I.1</b>	<ul style="list-style-type: none"> <li>Obtain a listing of all members' account balances and check that the total agrees with accrued benefits in the financial report.</li> <li>Review the allocation of revenue, expenses, income tax, excess contributions tax and other items to members to ensure that they have been correctly apportioned.</li> <li>Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.</li> </ul>
<b>J</b>	<b>RESERVES –</b>
<b>J.1</b>	<p>Reserves established prior to 1 July 2017 are permitted, in accordance with section 115 of the SISA and the fund's trust Deed. However, the management of these reserves must take into account the ATO's views SMSF* Regulator's Bulletin SMSFRB 2018/1.</p> <p>*Review SMSFRB 2018/1 – ATO's view on SMSFs and reserves</p> <p>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 reforms introduced from July 2017 that apply restrictions to the level of tax concessions available to super:</p> <ul style="list-style-type: none"> <li>TSB manipulation in order to make NCCs;</li> <li>Reduce member balance to less than \$500k in order to make 'catch-up contributions'; and</li> </ul> <p>Use of reserves to reduce the member balance in respect of TBA reporting.</p>
<b>J.2</b>	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.
<b>J.3</b>	Review the movements in the reserve during the period, to ensure clerically accurate and in accordance with the trustee policy.
<b>J.4</b>	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
<b>J.5</b>	Ensure any allocation from reserves is in accordance with the trust deed, and s115 SISA 1993, subsection 292-25(3) ITAA 1997 and regulation 292-25.01 ITAR 1997 (concessional contributions). The allocation can have implications for the member, if in excess of their concessional contribution cap.
<b>K</b>	<b>INVESTMENT AND OTHER REVENUE</b>
<b>K.1</b>	<p><u>Analytical Review</u></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
<b>K.2</b>	<p><u>Interest Income</u></p> <ul style="list-style-type: none"> <li>Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received.</li> <li>For bank interest conduct analytical review procedures.</li> </ul>
<b>K.3</b>	<p><u>Changes in Market Value</u></p> <ul style="list-style-type: none"> <li>Conduct an analytical review.</li> <li>Test the changes in market value calculations, including realised changes in market value, to ensure that they are correct.</li> <li>Reconcile to investments, for substantive audits.</li> </ul>
<b>K.4</b>	<p><u>Dividends</u></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
<b>K.5</b>	<p><u>Trust Distributions</u></p> <ul style="list-style-type: none"> <li>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 per cent discount to capital gains – check the percentage applied is applicable to SMSFs.</li> </ul>

Ref	Audit Procedure
<b>K.6</b>	<u>Rental Income</u> <ul style="list-style-type: none"> <li>Conduct an analytical review against rental agreement and period of tenancy.</li> <li>Vouch rental income against agent's statements or other records, as appropriate.</li> <li>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.</li> <li>Check any rent reviews in the lease agreements during the period have been correctly applied.</li> <li>Audit files should include a copy of the lease agreement and be carried forward annually until the term of the lease expires.</li> </ul>
<b>K.7</b>	<u>Other Income</u> <ul style="list-style-type: none"> <li>If the SMSF receives other forms of income, ensure that these are correctly calculated, earned and disclosed.</li> </ul>
<b>K.8</b>	<u>Non-arm's length income (NALI)</u> <ul style="list-style-type: none"> <li>Review transactions and investment acquisitions for possible NALI. NALI can also be invoked from non-arm's length expenses (NALE). Unreported NALI could have a significant impact on the tax calculation.</li> </ul>
<b>L</b>	<b>CONTRIBUTIONS AND TRANSFERS IN</b>
<b>L.1</b>	<u>Concessional contributions</u> <ul style="list-style-type: none"> <li>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 ATO's single touch payroll (STP) system.</li> <li>Where the contributions are from a related employer, ensure you verify the contributions via the STP process. Small employers (less than 19 employees) 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.</li> <li>Test that contributions have been allocated to the member for whom they were remitted.</li> <li>For concessional contributions made by the member, obtain a copy of the form or notice prepared in accordance with the requirements of section 290-170 of the ITAA (1997), and confirm the details are consistent with the accounting treatment.</li> <li>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 for the carry forward of the unused concessional contribution cap. Unused contributions can be carried forward, but will expire after 5 years. The ability to make a catch-up concessional contribution applies only where a total super balance (TSB) at the start of the income year is less than \$500,000. Audit files could include documentation verifying the members qualification to utilise the catch-up opportunity.</li> <li>For members &gt; 65, verify the substantiation that the work test has been met and the contribution was permitted.</li> <li>Ensure only mandated contributions received for members aged &gt;75.</li> <li>Ensure no-TFN contributions were received.</li> </ul>
<b>L.2</b>	Where co-contributions have been received, test that they have been allocated to the member for whom they were remitted.
<b>L.3</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>L.4</b>	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
<b>L.5</b>	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.
<b>M</b>	<b>EXPENSES</b>
<b>M.1</b>	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.
<b>M.2</b>	Vouch material items to invoices, ensuring the expenses are attributable to the SMSF or are apportioned correctly.
<b>M.3</b>	Agree administration fees to the agreement with the administrator.
<b>M.4</b>	Agree management fees to the agreement with the investment manager.

Ref	Audit Procedure
<b>N</b>	<b>LUMP SUMS AND PENSIONS PAID</b>
<b>N.1</b>	<ul style="list-style-type: none"> <li>Obtain a listing of all benefits paid and reconcile benefits paid to the prior year members' statement, adjusted for current period transactions.</li> <li>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.</li> <li>Ensure audit workpapers include evidence of the validity of benefit payments to members.</li> <li>Confirm that each benefit was paid in accordance with the terms of the fund's governing rules.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>Investigate liabilities at year end to ensure that pensions have been paid, and not just accrued.</li> </ul>
<b>O</b>	<b>TAX</b>
<b>O.1</b>	<p>Review tax work papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies, including:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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'</li> <li>ECPI has been correctly applied to income but not contributions.</li> <li>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.</li> <li>Franking credits from dividends are correctly adjusted.</li> <li>Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly.</li> <li>CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount.</li> <li>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.</li> <li>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: <a href="#">Foreign Tax Offset</a>.</li> </ul>
	<ul style="list-style-type: none"> <li>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.</li> <li>Confirm whether NALI has been correctly identified and tax applied at the appropriate rate.</li> </ul>
<b>O.2</b>	<p>Where deferred tax is reported by the fund, complete the following procedures:</p> <ul style="list-style-type: none"> <li>Check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report, including: <ul style="list-style-type: none"> <li>Deferred tax assets arising from unrealised losses are after discounting.</li> <li>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.</li> </ul> </li> <li>Prove the deferred tax assets and liabilities represent the tax effect of timing differences.</li> </ul>

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

Ref	Audit Procedure
<b>O.3</b>	Confirm that tax has been calculated for ordinary income at 15 per cent, unless the SMSF has received a notice advising it is non-complying for tax purposes. Ensure NALI is taxed appropriately
<b>O.4</b>	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.
<b>P</b>	<b>GOING CONCERN</b>
<b>P.1</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• Review the net asset position of the fund to determine if a net asset deficiency exists.</li> <li>• Consider a modification to the auditor's report.</li> <li>• Solvency issues may be identified if the significant fund assets of the SMSF have not been correctly stated at market value. If you cannot obtain appropriate substantiation of the market value of significant fund assets or liabilities, the auditor may not be able to accept that the SMSF financial report is prepared on a going concern basis.</li> </ul>
<b>Q</b>	<b>SUBSEQUENT EVENTS</b>
<b>Q.1</b>	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.
<b>R</b>	<b>OTHER AUDIT CONSIDERATIONS</b>
<b>R.1</b>	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.
<b>R.2</b>	<p>Check whether material commitments and contingencies are properly disclosed by reviewing or obtaining:</p> <ul style="list-style-type: none"> <li>• Trustee minutes.</li> <li>• Solicitors' representations.</li> <li>• Trustees' representations.</li> </ul>
<b>R.3</b>	Consider the risk of fraud in the design of audit procedures and when evaluating trustee representations. Make reference to the requirements of ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> .
<b>S</b>	<b>TRUSTEE REPRESENTATIONS</b>
<b>S.1</b>	Obtain written representations from the trustee.
<b>S.2</b>	Evaluate that the representations appear reasonable and consistent with the other audit evidence and conclusions.
<b>S.3</b>	If necessary, seek corroborative evidence on trustee representations.

<b>T</b>	<b>COMMUNICATIONS WITH TRUSTEE</b>
	<p>Check that all matters of governance interest arising from the audit are communicated to the trustee on a timely basis, including:</p> <ul style="list-style-type: none"><li>• Responsibilities of the auditor in relation to the financial report audit, usually communicated in the engagement letter;</li><li>• 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;</li><li>• Auditor's views about significant findings from the audit engagement;</li></ul> <p>Significant matters discussed with the trustee include uncorrected misstatements aggregated by the auditor during the audit that were determined by the trustee to be immaterial, both individually and in the aggregate, to the financial report taken as a whole;</p> <ul style="list-style-type: none"><li>• Confirmation as to the independence of the auditor.</li></ul>

## Appendix 5

(Ref: Para. 8)

### TABLE OF ABBREVIATIONS

AAS	Australian Accounting Standards
ACR	Auditor/actuary contravention report
AML/CTF Act	<i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i>
ASAE	Australian Standards on Assurance Engagements
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CGT	Capital gains tax
ECPI	Exempt current pension income
GPFR	General Purpose Financial Report
GST	Goods and Services Tax
IDPS	Investor Directed Portfolio Service
IHA	In-house asset
ITAA	<i>Income Tax Assessment Act 1936 &amp; 1997</i>
NALI	Non-arm's length income
NALE	Non-arm's length expense
NCC	Non-concessional contribution
PAYG	pay as you go
SGC	Superannuation Guarantee Contribution
SISA	<i>Superannuation Industry (Supervision) Act 1993</i>
SISR	<i>Superannuation Industry (Supervision) Regulations 1994</i>
SMSF	Self Managed Superannuation Fund
SPFS	Special Purpose Financial Statements
SPT	Sole purpose test
TFN	Tax File Number
TRIS	Transition to retirement income stream
TSB	Total superannuation balance
WRAP	Investment service operated under the ASIC Class Order [CO 13/763]



**Agenda Item 2.0.2**

AUASB Meeting 118 – June 2020

Marked Up Document – comparing clean version  
presented to AUASB on 21 April to clean version  
presented to AUASB on 9 June 2020.

**GS 009**

(~~April~~[June](#) 2020)

# **Guidance Statement GS 009**

## ***Auditing Self-Managed Superannuation Funds***

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



**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](http://www.auasb.gov.au)

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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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- Appendix 3: Self-Managed Superannuation Fund Governing Rules Preliminary Understanding Checklist

- Appendix 4: Illustrative Financial Audit Procedures for a Self-Managed Superannuation Fund

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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.

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<sup>1</sup>, ~~(financial audit)~~ prepared as 'Special Purpose Financial Statements' (SPFS) ~~(financial audit)~~; 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.<sup>2</sup>

#### 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<sup>3</sup> 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~~ Contributions (SGC). Complying SMSFs are Australian superannuation funds, which meet the requirements of the SISA and SISR and are "regulated"<sup>4</sup> under the SISA.
5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),<sup>5</sup> 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.<sup>6</sup> The auditor reports to the ~~trustee~~ trustee<sup>7</sup> in the "approved form", as issued and updated from time to time, by the ATO,<sup>8</sup> which includes opinions under two sections:
  - (a) Part A: Financial report; and

<sup>1</sup> 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 paragraphs 14 to 18 of~~ this Guidance Statement.

<sup>2</sup> 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.

<sup>3</sup> See Division 1, ~~Section~~ section 6 of the SISA.

<sup>4</sup> 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.

<sup>5</sup> Approved SMSF auditor is defined in paragraph 13.

<sup>6</sup> The *SMSF Annual Return* (NAT 71226) comprises income tax reporting, regulatory reporting and member contributions reporting.

<sup>7</sup> 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.

<sup>8</sup> The approved form auditor's report is contained within the ~~Instructions and form~~ 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/SuperFundsSuper](http://www.ato.gov.au/SuperFundsSuper).

- (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 [or ASAs](#)), 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 – 54](#) which provide sample templates, ~~and~~ checklists; and ~~examples~~
  - ~~(d)(e)~~ [Appendix 5 – provides a table of abbreviations used in the application of the independence requirements](#) ~~Guidance Statement.~~
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~~ [applicable](#) ATO Rulings, Interpretive Decisions (ID) and Guides and the Income Tax Assessment Acts; ~~and~~
  - ~~(e)~~ [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)<sup>9</sup>](#); and
  - ~~(e)(f)~~ [applicable](#) ASIC Regulatory Guides and Class Orders<sup>10</sup>.
10. This Guidance Statement does not provide guidance on auditing a defined benefit fund<sup>11</sup> as these funds are not prevalent as SMSFs.

## Definitions

11. A SMSF meets the definition of a SMSF of the SISA<sup>12</sup> if:

<sup>9</sup> Refer to definition in paragraph 19(d) of this guidance statement.

<sup>10</sup> Further detail is available at ASIC website: <https://www.asic.gov.au/smsf-auditor>.

<sup>11</sup> Defined Benefit Fund defined in Regulation 1.03(1) of the SISR.

<sup>12</sup> See subsections 17A(1) & (2) of the SISA.

- (a) it has fewer than five members;
  - (b) each individual trustee or director of the corporate trustee is a member of the fund, unless it is a single member fund, in which case the sole member is either:
    - (i) a director of the corporate trustee or one of two directors who are related or, if unrelated, the member is not an employee of the other director; or
    - (ii) one of two individual trustees who are related or, if unrelated, the member is not an employee of the other trustee;
  - (c) each member of the fund is a trustee or a director of the corporate trustee;
  - (d) no member is an employee of another member, unless they are relatives; and
  - (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.<sup>13</sup>
12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA<sup>14</sup> 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<sup>15</sup> 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<sup>16</sup> is a person who is registered as an approved SMSF auditor with ASIC<sup>17</sup> but does not include:
- (a) a person for whom an order disqualifying [or suspending the registration of](#) that person from being an approved SMSF auditor is in force; or

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<sup>13</sup> Section 17B of the SISA allows for exceptions in relation to remuneration of trustees.

<sup>14</sup> See subsections 17A (3) & (4) of the SISA.

<sup>15</sup> 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.

<sup>16</sup> See subsection 10(1) of the SISA.

<sup>17</sup> 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.

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

### **Trustees' ~~Trustee~~ Responsibilities**

14. The responsibilities of the SMSF's ~~trustee~~<sup>trustee</sup> are contained in the SISA, SISR, and the governing rules of the fund. The ~~trustees have~~<sup>trustee has</sup> 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 ~~trustee~~<sup>trustee</sup> 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~~<sup>trustee</sup> and from those of any employer-sponsor of the SMSF or their associates;<sup>18</sup>
  - (e) not enter into a contract or agreement that would hinder the ~~trustee~~<sup>trustee</sup> 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.<sup>19</sup>
15. The ~~trustee~~<sup>trustee</sup> 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.<sup>20</sup>

### *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 (AAS);~~
  - ~~(a) the Australian International Financial Reporting Standards (AIFRS);~~

<sup>18</sup> See regulation 4.09A of the SISR.

<sup>19</sup> See <https://www.ato.gov.au/Super/ATO-Self-managed-super-funds-website>: <http://www.ato.gov.au/Super/Self-managed-super-funds>.

<sup>20</sup> See regulation 8.02A of the SISR.

- (b) ~~The~~ SISA and the SISR<sup>21</sup>;
  - (c) ATO publications and guidelines;
  - (d) ~~The~~ the Fund's Trust Deed; and;
  - (d) ~~—~~ AASB 2020-2 ~~March 2020~~
  - (e) ~~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(March 2020).~~
17. ~~SMSFs, where the members are also the trustees, are, generally, not considered reporting entities and, as such, prepare special purpose financial reports and would not typically adopt AASB 1056. AASB 2020-2, issued in March 2020, 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 to prepare a SPFS with effect from 1 July 2021. In accordance with AASB 2020-2, SMSFs are required to prepare a general purpose financial report (GPFR) where their "constituting or other document, created or amended on or after 1 July 2021, specifically requires the financial report to be prepared in accordance with Australian Accounting Standards"~~<sup>22</sup>.
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"~~<sup>23</sup>.
- 19.18. It remains the trustee's responsibility ~~for the selection of~~ to select the accounting framework and the auditor's responsibility to assess the appropriateness of the framework<sup>24</sup> 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~~ Further consideration may be ~~applicable~~ required when applying GS 009 ~~for~~ to the audit of a SMSF that is required to prepare ~~the~~ financial ~~statements~~ report under the general purpose financial reporting framework ~~(GPFS)~~. In the absence of the specific trust deed indicating the preparation of ~~the~~ financial ~~statements~~ report 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~~<sup>25</sup>. 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~~

<sup>21</sup> The financial report format for SMSFs are set out in section 35B of the SISA and regulation 8.01 of the SISR. Under section 35B of the SISA, most SMSFs are required to prepare an operating statement and a statement of financial position. Regulation 8.02B of the SISR requires the financial report to record assets at their market value. Section 35B of the SISA requires the financial report 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.

<sup>22</sup> See *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For Profit Private Sector Entities*.

<sup>23</sup> [https://www.aasb.gov.au/admin/Files/content/105/e9/AASB2020\\_2\\_03\\_20.pdf](https://www.aasb.gov.au/admin/Files/content/105/e9/AASB2020_2_03_20.pdf)

<sup>24</sup> See ASA 210 paragraph 6(a) which establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.

<sup>25</sup> 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.

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

23.19. The professional obligations of approved SMSF auditors under the SISA<sup>26</sup> are to:

- (a) complete the continuing professional development requirements prescribed by the regulations;<sup>27</sup>
- (b) hold a current policy of professional indemnity insurance;<sup>28</sup>
- (c) comply with:
  - (i) any competency standards<sup>29</sup> ASIC determines; [and](#)
  - (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)* ([the Code of Ethics](#)); as prescribed by the regulations.<sup>30</sup>

24.20. 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 [the](#) Institute of Public Accountants (IPA) are required to comply with competency requirements<sup>31</sup> when accepting and conducting SMSF audits. These include requirements to hold a practising certificate, maintain appropriate professional indemnity insurance, complete minimum

<sup>26</sup> See ~~subsection~~ [section](#) 128F of the SISA.

<sup>27</sup> See regulation 9A.04 of the SISR.

<sup>28</sup> See regulation 9A.05 of the SISR.

<sup>29</sup> See ASIC Class Order CO 12/1687 *Competency Standards for approved SMSF auditors*.

<sup>30</sup> See regulation 9A.06 of the SISR.

<sup>31</sup> See *Competency Requirements for Auditors of Self-Managed Superannuation Funds* (February 2008) issued by Representatives of the Australian Accounting Profession, CA ANZ (previously ICAA) CPA Australia and IPA—([previously NIA](#)).

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.

25.21. The auditor is required under the SISA to:

- (a) provide an auditor's report on the SMSF's operations for the year to the ~~trustee~~<sup>trustee</sup> in the approved form,<sup>32</sup> 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;<sup>33</sup>
- (b) report in writing to the ~~trustee~~<sup>trustee</sup>, 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<sup>34</sup> using the approved form auditor/actuary contravention report (ACR) and instructions (ACR instructions),<sup>35</sup> 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).

26.22. 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).

27.23. 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";<sup>36</sup> and
- (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".

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<sup>32</sup> See section 35C of the SISA.

<sup>33</sup> See regulation 8.03 of the SISR.

<sup>34</sup> 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.

<sup>35</sup> [Completing the Auditor/actuary contravention report \(instructions\)](#) (NAT 11299) and [Auditor/actuary contravention report \(ACR\)](#) (NAT 11239), see: [www.ato.gov.au/Superfunds](http://www.ato.gov.au/Superfunds). See: [www.ato.gov.au/Super](http://www.ato.gov.au/Super)

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.<sup>36</sup>

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

**28.24.** ASQC 1 *Quality ~~Management~~Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, ~~and~~ Other Assurance Engagements and related Services* 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 Australian Auditing Standards*

**29.25.** 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~~reports and records, establishing and maintaining internal controls, particularly those preventing and detecting fraud and error, and providing the ~~auditors~~auditor with any information, explanations and assistance required for the

<sup>36</sup> ASIC class order CO 12/1687.

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 Control for an Audit of a Financial Statements Report and Other Financial Information* requires the engagement partner to ~~determine given the nature and circumstances of the audit engagement:~~
- (i) ~~responsibility remain alert, through observation and making enquiries as necessary, 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;~~
  - (i) ~~an understanding of the evidence of non-compliance with relevant ethical requirements, including those related to 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;~~
  - (ii) ~~be satisfied that are applicable.~~
  - (iii) ~~that the firm's policies or appropriate procedures for 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 firm's policies or procedures for the acceptance engagement team, and continuance of client relationships and audit engagements any auditor's experts who are not part of the engagement team, collectively have been followed, and that conclusions reached in this regard are the appropriate.~~
  - (v)(iv) ~~any changes that may arise during the engagement, that sufficient and appropriate resources competence and capability to perform the engagement are assigned or made available to the engagement team by the firm in a timely manner audit engagement;~~
  - (vi)(v) ~~take responsibility for the direction and, supervision and performance of the members of the audit 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.~~
  - (vi) ~~take responsibility for the auditor's report being appropriate in the circumstances.~~
- (e) ~~ASA 230 Audit Documentation requires preparation of documentation:~~
- (e) ~~that is<sup>37</sup>:~~

<sup>37</sup> 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 financial report audit.

- (i) sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the ~~Australian~~ Auditing Standards and applicable legal and regulatory requirements;
- (ii) ~~that is~~ sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the results of the audit procedures performed, the audit evidence obtained, significant matters arising during the audit, the audit conclusion reached thereon and significant professional judgements made in reaching those conclusions.

For example, ~~rental~~:

- ~~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~~can 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 ~~6958~~<sup>38</sup> of ~~ASQMASQC 1 requires the audit firm to establish~~establishes a period of time for the retention of documentation for the system of quality ~~management~~control that is sufficient to enable the firm to monitor the design, implementation and operation of the firm's system of quality ~~management~~control, 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.<sup>39</sup>
- (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<sup>40</sup>.

<sup>38</sup> See ASQC 1 paragraph 58, which states the period of documentation should be sufficient to permit those performing monitoring procedures to evaluate the firm's system of quality control, or for a longer period if required by law or regulation.

<sup>39</sup> 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.

<sup>40</sup> 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.

ASA 250 is particularly relevant due to the requirement for a SMSF to have an annual Compliance Audit financial report audit and a compliance engagement. Where non-compliance ~~of with the~~ SISA or ~~the~~ SISR is identified, the auditor is required under ASA 250 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.~~

Compliance breaches identified as a result of the financial 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~~may consider modifying their opinion on the audit of the financial statements report – Part A qualification. This is in addition to any modification of the opinion in respect of the Compliance Engagement – Part B 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~~a material misstatement of the SMSF's financial statements report is where there is a breach of the in-house asset (IHA) rules ~~(IHA)~~. A review of the rectification plan to determine the impact, if any, on the financial report will be required necessary, for the auditor to determine whether ~~they~~to modify their opinion.
- An example of where there ~~could~~may be a material misstatement ~~of in~~ the financial statements report 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 follows the requirements in ASA 450 Evaluation of Misstatements identified during the Audit and then considers any impact on their opinion on the financial statement audit report.~~

- (h) ASA 260 *Communication with Those Charged with Governance* requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate, usually the ~~trustee~~trustee in the audit of an SMSF, and communicate with them, on a timely basis, the responsibilities of the auditor in relation to the financial report audit, an overview of the planned scope and timing of the audit, significant qualitative aspects of the entity's accounting practices, 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~~trustee. The management letter ~~can also~~may be used to ~~tell inform~~ the ~~trustees about~~trustee of 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 through, for example, the referring accountant.

The auditor has a direct responsibility to the trustee and should not seek to rely on the representations of other parties.<sup>41</sup>

- (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 [trustee/trustee](#) of the fund.
- (j) *ASA 300 Planning an Audit of a Financial Report* requires the auditor to perform preliminary engagement activities, including evaluation of their own compliance with relevant ethical requirements including independence, to establish and document an overall audit strategy that sets the scope, timing and direction of the audit, that guides the development of the audit plan and plan the nature, timing and extent of direction and supervision of the engagement team members and review of their work.
- (k) *ASA 315 Identifying and Assessing the Risks of Material Misstatement* 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)~~

<sup>41</sup> *Cam & Bear Pty Ltd v McGoldrick* [2018] NSWCA 110 and *Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502.

Part A of GS 007 provides guidance to a ‘user auditor’ on the application of ASA 402 in respect of investment management services<sup>42</sup>.

GS 007 provides guidance for the preparation, and use as audit evidence, of two types of Control Reports – Type 1 reports on controls – ‘type 1’ and Type 2 – ‘type 2’, stating a Type 1 Report can be used in applying ASA 315 to the audit planning and, that a Type 2 Controls Report can type 1 report may be used by the auditor in applying ASA 315 to audit planning, whereas a type 2 report on controls may also be used by the auditor in responding to assessed risks in accordance with ASA 330.

A Type type 2 Control Report report on controls, 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 type 2 Control Report report on controls 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 Reports on Controls as at a Service Organisation

ASAE 3402 is the standard applied by the an auditor of a service organisation auditor that produces a Controls Report that can be used as is engaged to provide an assurance report on controls. Reports prepared in accordance with ASAE 3402 are capable of providing appropriate evidence under ASA 402. The standard provides for the issuance of either Type type 1 or Type type 2 reports report on controls. Only Type type 2 reports provide on controls are capable of providing reasonable assurance that the control objectives within the organisation were achieved through throughout 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 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 may be required.

In using a Type type 2 service auditor’s assurance report on controls, 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

<sup>42</sup> Investment management services may include WRAP platforms, custodial asset management, management accounts - Separately Managed Account (SMA) or an Individually Managed Account (IMA). A WRAP or Wrap Service is an administrative or reporting service whereby investments are consolidated, managed or held by a custodian. WRAPs combine reporting on investments including bank accounts, listed securities, managed funds, insurance and superannuation which are held within the portfolio.

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 deals with the~~ requirements relating to the use of substantive analytical procedures. ~~Furthermore, the standardsstandard~~ 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 that, when audit~~ when sampling is used, the auditor, ~~when in~~ 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 value accounting estimates, and related 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<sup>43</sup> 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 and other statutory reporting requirements~~, 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 ~~trustee~~trustee.
- (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~~objectivity 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.~~<sup>44</sup>

- (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. The decision regarding the type of modified opinion is appropriate, depends on both the nature of the matter and the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.
- (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~~presented in the auditor's report.
- (ee) ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* requires the auditor to determine whether the financial report

<sup>43</sup> ~~Since~~As 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*.

<sup>44</sup> ~~AASB 2020-2 Removal of Special Purpose Financial Statements for certain For Profit Private Sector Entities March 2020.~~

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 ~~offor~~ 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.<sup>45</sup> ~~Auditor's~~ Auditors' reports for SMSFs include an Emphasis of Matter paragraph drawing attention to the note in the financial report which describes the basis of accounting<sup>46</sup>.

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

~~30.26.~~ 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, for example:

- 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;requirements.
- Agree the terms of the engagement in writing~~;~~
- Plan the compliance engagement so that it will be performed effectively~~;~~
- Consider materiality and identify areas where the risks that may cause material non-compliance engagement risk<sup>47</sup> with the compliance requirements are likely to arise when planning and performing the compliance engagement~~;~~
- Reduce compliance engagement risk to an acceptable level in the circumstances of the compliance engagement;
- Respond to the risks identified and use as a basis for designing and performing appropriate assurance procedures.
- 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.~~

<sup>45</sup> In the rare circumstances where the SMSF is ~~a reporting entity, the SMSF is~~ required to prepare a ~~general purpose financial report and GPFR~~ the auditor refers to the requirements in ASA 700 *The Auditor's Report Forming an Opinion and Reporting on a General Purpose Financial Report*.

<sup>46</sup> See ASA 800, paragraph 14.

<sup>47</sup> ~~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).~~

- [ExpressForm](#) 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.

~~31.27.~~ Since ASAE 3100 is [to be](#) 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~~[Guidance Statement](#) makes direct reference to ASAE 3000. Although Auditing Standards ([ASAs](#)) do not apply to compliance engagements, they may ~~nevertheless~~ provide helpful guidance in the conduct of a compliance engagement.

~~32.28.~~ ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, provides for [assurance](#) 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 ~~an assurance~~ 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~~[142-148](#).

## Preliminary Engagement Activities

~~33.29.~~ Prior to commencing the audit, the auditor performs a number of preliminary ~~tasks~~[activities](#) 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 [required by ASA 220](#) 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, [in accordance with ASA 220](#); and
- (c) establish an understanding of the terms of engagement, [as required by ASA 210](#).

These steps are outlined below.

### *Acceptance and Continuance Procedures*

~~34.30.~~ Under the Auditing Standards and ASAE 3000, the auditor ~~only~~ accepts or continues an engagement ~~if nothing comes only when the auditor has no reason to the auditor's attention to indicate believe that the relevant ethical requirements of the fundamental ethical principles, the Auditing Standards and ASAE 3000, including independence,~~ will not be satisfied.

~~35.31.~~ 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~~[trustee](#)<sup>48</sup> 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.~~

<sup>48</sup> See [Guidance Statement](#) GS 011 *Third Party Access to Audit Working Papers*, paragraph 14.

~~37.32.~~ Where an auditor is unable to obtain sufficient appropriate audit evidence ~~of~~<sup>regarding</sup> the fund's opening balances, they may need to limit the scope of the audit and consider ~~varying~~<sup>modifying</sup> their opinion on the financial statements – Part A qualification.

#### *Ethical Requirements*

~~38.33.~~ In accordance with ASA 102, ASA 200 and ASAE 3000, the auditor is required to comply with relevant ethical requirements relating to audit ~~and~~ assurance engagements. For the purposes of GS-009 ~~this means these include~~ the ~~applicable requirements of the Code of Ethics~~.<sup>49</sup> - The ~~Code provides a conceptual framework that specifies an approach to identify threats to compliance with the fundamental principles of professional ethics comprise,~~ ~~evaluate the threats identified and address the threats by eliminating or reducing them to an acceptable level~~<sup>50</sup>.

~~34.~~ The fundamental principles of ethics comprise<sup>51</sup>:

- (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~~<sup>52</sup> ~~for auditors undertaking ethics establish the standard of behaviour expected of the auditor when performing the SMSF audit of a SMSF and compliance engagement~~.

~~39.35.~~ Under ASA 220 and ASAE 3100, the auditor accepts an engagement only when the auditor is satisfied that they, and, ~~if applicable,~~ the engagement team ~~if applicable,~~ have met the relevant ethical requirements.

~~40.36.~~ 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<sup>53</sup> the auditor is required to comply with competency standards set out by ASIC.<sup>54</sup> - 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.

<sup>49</sup> In Australia, the applicable code of ethics of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, (including *Independence Standards*), as issued from time to time by the ~~Accounting Professional and Ethical Standards Board~~. ~~This Code of Ethics~~ APESB. The Code 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.~~

<sup>50</sup> See section 120 of the Code.

<sup>51</sup> See section 110 of the Code.

<sup>52</sup> See regulation 9A.06 of the SISR.

<sup>53</sup> See ~~subsection~~section 128Q of the SISA.

<sup>54</sup> See ASIC Class Order CO 12/1687.

41.37. 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*

42.38. ASA 220 requires the engagement partner to form a conclusion on compliance with the independence requirements applying that apply 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<sup>55</sup> and the SISR<sup>56</sup> require the auditor to comply with the auditor independence requirements prescribed by the Code ~~of Ethics.~~<sup>57</sup>

43. ~~Overall, independence requires both:~~

39. Independence comprises<sup>58</sup>:

- (a) independence of mind - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby 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 be likely to conclude that a firm's, or a member of the engagement team's an audit or assurance team member's, integrity, objectivity or professional scepticism had~~has~~ 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.~~

40. Independence enables the auditor to act with integrity, to be objective and to maintain an attitude of professional scepticism and is mandatory<sup>59</sup> for auditors undertaking the audit of a SMSF.

41. The *Independence Standards* in Parts 4A and 4B of the Code set out requirements and application material on how to apply the conceptual framework in the Code to maintain independence when performing audits, reviews or other assurance engagements.

45.42. When assessing independence, the auditor<sup>60</sup>:

- (a) identifies any threats to compliance with the fundamental principles (and independence);
- (b) evaluates whether the significance of the identified threats are at an acceptable level; and

<sup>55</sup> See subsection 128F-(d) of the SISA.

<sup>56</sup> See regulation 9A.06 of the SISR.

<sup>57</sup> In addition, auditors and assurance practitioners may make reference should refer to the *Joint Accounting Bodies Independence Guide*, Fifth Edition, May 2020 a joint publication issued by APESB, CA ANZ, CPA Australia and the IPA.

<sup>58</sup> See section 120 of the Code.

<sup>59</sup> See section 128F(d) of the SISA and regulation 9A.06 of the SISR.

<sup>60</sup> See section 120 of the Code.

- (c) ~~if the addresses any identified threats that are other than clearly insignificant, identifies and applies not at an acceptable level by:~~
- (i) ~~eliminating the circumstances, including interests or relationships, that are creating the threats;~~
  - (+)(ii) ~~applying safeguards to eliminate or where available and capable of being applied, to reduce the threats to an acceptable level; or~~

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.~~

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:~~

(iii) declining or ending the engagement.

43. Identifying threats to the fundamental principles (and independence) requires an understanding by the auditor of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation or the firm that enhance the auditor acting ethically might also help identify threats. Threats with fall into one or more of the following categories:<sup>52</sup>

- (a) Self-interest threat;
- (b) Self-review threat;
- (c) Advocacy threat;
- (d) Familiarity threat; and
- (e) Intimidation threat.

44. Threats to compliance with the fundamental principles (and independence) must be evaluated by the auditor as to whether the threats are at an acceptable level, being a level at which the auditor using the reasonable and informed third party test would likely conclude that the auditor complies with the fundamental principles. The consideration of qualitative and quantitative factors is relevant as is the combined effect of multiple threats. The conditions, policies and procedures referred to in paragraph 43 might be relevant factors in evaluating the level of threats and examples include:<sup>52</sup>

- Corporate governance requirements.
- Educational, training and experience requirements for entry into the profession;
- Continuing educationEffective complaint systems which enable the member and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements;
- Professional standards, or regulatory monitoring and disciplinary processes; procedures.
- ~~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.~~

~~50.45.~~ 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~~trustee, financial adviser, accountants, administrator, actuary and any other person or organisation involved with the management or operation of the SMSF.

46. Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstances creating the threat. However, in some situations the only way to address the threat is to decline or end the engagement as the circumstances that created the threat cannot

be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level. Safeguards are actions, individually or in combination, taken by the auditor to effectively reduce threats to an acceptable level<sup>52</sup>.

47. As outlined in Section 8.4 of the *Independence Guide* – Fifth Edition, May 2020 (Independence Guide) the following scenarios involving SMSFs would always result in independence requirements being breached. In each of these cases, it would be expected that an auditor would decline the audit engagement:
- (a) an auditor cannot audit a SMSF where the auditor, their staff or their firm has prepared the financial statements for the SMSF unless it is a routine or mechanical service;<sup>61</sup>
  - (b) an auditor cannot audit their own or an immediate family member's SMSF;<sup>62</sup>
  - (c) an auditor cannot audit the SMSF where a partner within their own firm is a member/trustee of that SMSF;<sup>63</sup> and
  - (d) an auditor cannot audit the SMSF where they have a business relationship with a member/trustee of the SMSF.<sup>64</sup>
48. In addition, an auditor should not audit the SMSF where a relative or a related party of the auditor is a member/trustee of that SMSF or where the auditor has a close personal relationship. Where an audit team member on the audit of a SMSF has a close family member (parent, child or sibling who is not an immediate family member) that is a member and trustee of that SMSF, a reasonable and informed third party would likely conclude that a self-interest threat to independence is not an acceptable level and must be addressed.<sup>65</sup>
- 51.49. A firm must not assume a management responsibility for an audit client.<sup>66</sup> 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 the firm to reduce the self-review threat to an acceptably low level, ~~other than withdrawal~~. As such, the firm would need to withdraw from either the administration or the audit engagement.
50. A firm (or network firm) must not provide to a SMSF any accounting and bookkeeping services, including preparing the financial statements that the firm will be auditing or financial information which forms the basis of such financial statements, unless:<sup>67</sup>
- (a) the services are of a routine or mechanical nature; and
  - (b) the firm addresses any threats created by providing such services that are not at an acceptable level.
51. Assisting an audit client in the preparation of accounting records or financial ~~reports~~ may statements will create a self-review threat when those records and ~~reports~~ financial statements are subsequently audited by the same firm. ~~If, however, the accounting~~ Such services ~~provided are prohibited unless they~~ are of a routine or mechanical nature, such as meaning the services require little or no professional judgement (e.g. posting transactions and entries coded by the SMSF trustee(s), posting SMSF trustee approved by the SMSF or preparing the financial report based on a entries to the trial balance provided by the SMSF, or preparing the financial statements based on an a trial balance approved by the SMSF

<sup>61</sup> See section 600 and subsection 601 of the Code.

<sup>62</sup> See sections 510, 521 and 523 of the Code.

<sup>63</sup> See section 523 of the Code.

<sup>64</sup> See section 520 of the Code.

<sup>65</sup> See section 510 and 521 of the Code and section 8.4 of the Independence guide.

<sup>66</sup> See section 600 of the Code.

<sup>67</sup> See subsection 601 of the Code and section 8.4 of the Independence guide.

trustee(s)). However, even if the service is routine or mechanical a reasonable and informed third party would conclude that threats to independence are not at an acceptable level and would need to be addressed. The threats might be addressed by applying safeguards if they are available and capable of being applied, such as:<sup>68</sup>

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service, review the audit work or service performed.

If the auditor cannot eliminate the circumstances creating the threats or apply safeguards to reduce the self-review threat may be reduced to an acceptably low acceptable level by applying safeguards, including, they must decline the engagement.

- ~~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.~~

52. Provision of taxation return preparation services to a SMSF which is also an audit client ~~would~~does not of itself ~~usually~~ create a threat to independence ~~that could not be mitigated by safeguards.~~ However, other tax services including tax calculations for the purpose of preparing the accounting entries, tax planning and other tax advisory services, tax services involving valuations or assistance in the resolution of tax disputes, may create threats to independence that need to be addressed and some services are prohibited by the Code.<sup>69</sup>

53. ~~Provision of financial advice to a SMSF which is also an audit client may of the same firm will likely create advocacy self-interest and self-review threats. These threats may be reduced that need 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 be addressed. Further guidance is provided in the firm; or~~

<sup>68</sup> See subsection 601 of the Code and sections 8.4 and 8.5 of the Independence Code.

<sup>69</sup> See subsection 604 of the Code and section 8.5 of the Independence Guide.

~~54.53.~~ Ensuring that the individual providing the advice does not commit the SMSF to the terms Section 8.5 of any transaction or consummate a transaction on behalf of the SMSF the Independence Guide.

~~55.54.~~ 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~~ threats. In evaluating and addressing these threats appropriate safeguards may include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed. ~~In addition, and~~ the audit firm ~~establishes~~ establishing policies and procedures around engagement quality control reviews.<sup>70</sup> These policies may include contracting of suitably qualified external persons or other firms<sup>71</sup> 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. If the circumstances creating the threats cannot be eliminated and appropriate safeguards are not available or capable of being applied to reduce threats to an acceptable level, the auditor may need to terminate or decline some of the engagements. Further guidance in relation to these types of arrangements are addressed in Section 8.5 of the Independence Guide.

~~55.~~ Reciprocal auditing arrangements ~~are potentially a significant threat~~ create threats to independence. ~~and are a concern to both the ATO and to ASIC. The following scenarios are drawn from Section 8.5 of the Independence Guide:~~<sup>72</sup>

(a) Where two auditors conduct the audit of each other's ~~SMSF, personal SMSFs – the~~ auditors cannot eliminate the circumstances creating the threats to independence and there are no safeguards to prevent the threat to independence. A significant threat available or capable of being applied to reduce threats to independence ~~can to an acceptable level. As such, the respective engagements must be declined.~~

~~(a)(b)~~ Self-interest, familiarity and intimidation threats to independence 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. other's SMSF clients. Where this arrangement represents a large proportion of the total fees of the firm(s) a reasonable and informed third party would consider the threats to independence are not at an acceptable level and would need be addressed. In this case, the auditors cannot eliminate the circumstances creating the threats to independence. To reduce this threat to independence to an acceptable level, safeguards for auditors could include:

~~56.~~ 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~~ spreading these referrals to a number of different SMSF auditors;

<sup>70</sup> See ASQM, paragraph 41A(c). See Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, paragraph 35.

<sup>71</sup> See ASQM 2 *Engagements Subject to an Engagement Quality (EQ) Review*. See ASQC 1, paragraph A50.

<sup>72</sup> See Chapter 8 of the Independence Guide issued by APESB, CA ANZ, CPA Australia & the IPA.

- having an appropriate reviewer, who did not take part in the audits, conduct a review of the audits; or
  - engaging an external quality control reviewer or consultant concerning key audit judgments.
  - ~~If the circumstances creating the threats cannot be eliminated, and if appropriate safeguards are not available or capable of being applied, each auditor must decline the SMSF audit team any personnel with a close relationship with engagements and end 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.~~
- 57.56.** In situations in which no safeguards are available or capable of being applied to reduce the ~~threat~~ threats 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<sup>73</sup>.
- 58.57.** ~~Appendix 5 of this Guidance Statement~~ The Independence Guide, Chapter 8 specifically addresses the independence requirements in the Code in a SMSFs context and provides a number of practical examples of SMSF scenarios and the threats show the conceptual framework in the Code can be applied to independence posed by those situations, as well as some appropriate safeguards which may address those threats scenarios.

#### *Professional Judgement and Scepticism*

- 59.58.** ASA 200 requires the auditor to plan and perform an audit exercising professional judgement, and with an attitude of professional scepticism. In exercising professional scepticism, auditors apply an attitude that includes a questioning mind, remaining alert to conditions which may indicate possible misstatement due to error or fraud, and critically assessing audit evidence.
- ~~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.~~

<sup>73</sup> See section 120 of the Code.

### *Quality Control*

~~60.~~59. 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~~;~~.
- Consulting appropriately on difficult or contentious matters both within the engagement team and with others within or outside the firm, and documenting and implementing agreed conclusions~~;~~.
- Monitoring quality adequately against firm and professional standards, including the Auditing Standards and ASAEs.

### *Agree the Terms of Engagement*

~~61.~~60. Under ASA 210, the auditor is required to agree the terms of the audit engagement in writing with the SMSF ~~trustee~~trustee prior to conducting the audit. This is usually in the form of an engagement letter to the ~~trustee~~trustee. ASA 210 provides guidance on the principal contents of an engagement letter.

~~62.~~61. The ~~trustees are~~trustee is required to appoint the auditor at least 45 days prior to the date that the SMSF annual return is due to be lodged.<sup>74</sup> Either the ~~trustee~~trustee may be involved in the selection and appointment of the auditor or the SMSF's accountants, administrators or financial planners may assist with the sourcing and recruitment of an auditor for the SMSF. In either case, the ~~trustees~~trustee 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 ~~trustee~~trustee of the SMSF and not the auditor and the party referring the engagement such as the accountant or administrator.

~~63.~~62. For a SMSF audit engagement, the engagement letter ordinarily:

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<sup>74</sup> Requirement under regulation 8.02A of the SISR for appointments after 1 July 2013.

- ~~Describes~~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~~identifies the responsibilities of the auditor;
- ~~Identifies~~identifies the responsibilities of the ~~trustee~~trustee, including:
  - ~~Establishing~~establishing and maintaining an adequate internal control structure;
  - ~~Preparing~~preparing the SMSF's financial report;
  - ~~Keeping~~keeping the records of the SMSF secure and for the statutory time periods;
  - ~~Conducting~~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~~sets out the reporting requirements of the auditor, including those imposed by sections 129 and 130 of the SISA; and
- ~~Includes~~includes a notice to the ~~trustee~~trustee 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.

~~64.63.~~ 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:

- ~~Aa~~ revision of the terms of the engagement;
- ~~Anan~~ indication that the ~~trustee~~trustee misunderstand the objective and scope of the audit;
- ~~Aa~~ change in ~~trustee~~trustee;
- ~~Aa~~ significant change in the nature or size of the SMSF; or
- ~~Significant~~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.

~~65.64.~~ An example engagement letter is attached as Appendix 1 of this Guidance Statement.

## Planning

~~66.65.~~ Planning an audit involves a number of closely related ~~procedures~~activities, which include:

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

~~67.66.~~ 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.

~~68.67.~~ Adequate planning:

- ~~Ensures~~ensures appropriate attention to important areas of the audit engagement;
- ~~Identifies~~identifies potential problems on a timely basis;
- ~~Assists~~assists in the proper organisation and management of the audit engagement in order for it to be performed in an effective manner;
- ~~Assists~~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~~assists, where applicable, in the coordination of work performed by other auditors, actuaries and experts.

~~69.68.~~ The nature, timing and extent of planning activities will vary according to:

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

~~70.69.~~ 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*

~~71.70.~~ 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.

~~72.71.~~ The complexity of the audit strategy will vary with the size, nature and complexity of the SMSF.<sup>75</sup> 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.

~~73.72.~~ 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 ~~trustee~~trustee and members.

~~74.73.~~ In gaining this preliminary understanding of the SMSF, the auditor reviews the fund's current governing rules to verify whether:

- (a) ~~The~~the fund's governing rules were properly executed;
- (b) ~~The~~the SMSF has current and appropriately empowered ~~trustee~~trustee;
- (c) ~~The~~the SMSF was established with either a corporate trustee or individual ~~trustee~~trustee under the pension powers;
- (d) ~~The~~the fund's governing rules comply with or have a mechanism to comply with the SISA and SISR and changes thereto; and
- (e) ~~The~~the SMSF has powers to accept contributions and pay benefits, in the form permitted by the SISA and SISR.

~~75.74.~~ 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.~~

~~76.75.~~ It is possible for the fund's governing rules to be more restrictive than the SISA and SISR and prohibit or limit the ~~trustees'~~trustee's actions or powers. However, even if the fund's governing rules are more expansive than the SISA and SISR, the ~~trustee~~trustee must ensure they still comply with the requirements of the SISA and SISR.

#### *The Audit Plan*

~~77.76.~~ 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.

~~78.77.~~ 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.

~~79.78.~~ 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

<sup>75</sup> ASA 300 provides guidance on establishing the audit strategy for smaller entities.

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.

- ~~80.79.~~ 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.<sup>76</sup>

## Risk Assessment Procedures

- ~~81.80.~~ 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.
- ~~82.81.~~ 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.
- ~~83.82.~~ 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.
- ~~84.83.~~ 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~~ Underlying Data in an SMSF Audit

- ~~85.84.~~ Initial risk assessment and audit planning includes ~~determining~~considering the method of data collection used by the ~~party preparing~~preparer of the financial report for the SMSF. It is ~~more~~ common to see the use of technology for data management and transfer and this ~~can~~may influence the risk assessment undertaken by the SMSF auditor.
- ~~86.85.~~ 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~~In current practice it is more common for cash transaction data to be sourced via data feeds, which ~~is~~entails the

<sup>76</sup> Auditor guidance and information ~~is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors>~~, including ~~information on the ATO's electronic SMSF audit tool (eSAT)~~ for use in conducting the compliance engagement, ~~is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors>~~.

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.

- 87.86. Where the data feeds are utilised via a “direct-~~connect~~”connect’ process—, that is, an 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 feeds~~ directly from a financial institution into the software of the party preparing the annual compliance report. If an ASAE 3402 ~~Type~~type 2 report on controls has been obtained, this process of data transfer does not ordinarily represent any additional risks to the SMSF audit process. ~~It however~~However, this does not change the need for the audit planning process 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~~Investor Directed portfolio Services (IDPS)<sup>77</sup>.
88. ~~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.~~
- 89.87. Additional testing by the auditor may be ~~required~~considered for the audit of a SMSF that utilises this data transfer process for the preparation of the annual compliance report and ~~is would~~ normally be undertaken in the audit planning phase. The consideration of additional testing may be necessary where the preparer of the financial report utilises manual file imports from financial institutions and the data integrity of the information may not be reliable.
90. ~~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

- 91.88. ASA 320 requires the auditor to consider performance materiality<sup>78</sup> 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.
- 92.89. 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).

<sup>77</sup> ‘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.

<sup>78</sup> 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~~appropriately 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.

~~93.90.~~ Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within ~~both~~ Part A (paragraphs ~~174~~172 to ~~177~~175) and Part B (paragraphs ~~324~~315 to ~~325~~316), respectively, of this Guidance Statement.

## Audit Evidence

~~94.91.~~ 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.

~~95.92.~~ 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~~'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~~'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.

~~96.93.~~ 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~~financial reports of investment entities, such as closely held unlisted trusts or private companies;
- ~~Limited for limited~~ recourse borrowing ~~arrangement substantiation~~—arrangements, loan ~~contract deeds showing loans are limited in recourse~~, holding trust ~~deed deeds~~, extracts of bank ~~statement statements~~ showing transactions related to the ~~arrangement~~ (e.g. ~~arrangements~~ (for example, payment of the initial deposit and subsequent loan repayments);
- ~~Where~~where real property is held by the SMSF, a copy of the title ~~conveyance documentation deed~~ 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;~~ 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~~copies of advice received by the trustee, where it is relevant to the SMSF's financial position;
- ~~Asset~~asset substantiation, which may include, holding statements, ~~certificate~~certificates of title, bank statements, ~~Annual Tax Statement~~ and annual investor statements issued by a WRAP ~~provider providers~~;
- ~~Income~~income and expense substantiation, including the sampling methodology used (if not a 100% ~~per cent~~ sample size);

- ~~Bank~~ statements—, including 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; and
- ~~Trustee~~ minutes and/or resolutions, ~~the~~ trustee representation letter, the fund's Investment Strategy and any other relevant correspondence;

~~97.94.~~ 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~~ ordinarily provided efficiently and comprehensively, to provide the ~~details~~ adequate documentation of the conduct of the audit and how the auditor formed their opinion. Audit evidence is generally more reliable when:

- ~~Obtained~~ obtained from an independent source;
- ~~Obtained~~ obtained directly by the auditor;
- ~~Is in~~ documentary form;
- ~~It~~ comprises original documents; or
- ~~Received~~ is 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.

~~98.95.~~ 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.

~~99.96.~~ Obtaining a ~~Bank Confirmation~~ bank confirmation is ~~an effective~~ a method used to ~~obtain assurance about~~ provide evidence of 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. Guidance Statement GS 016 Bank Confirmation Requests (GS 016) provides guidance to auditors on the enquiry and confirmation methods for obtaining audit evidence regarding bank accounts and transactions.

~~100.97.~~ A bank confirmation certificate ~~will not however~~ is unlikely to provide the auditor with sufficient appropriate audit evidence on the completeness of the transactions that occurred during the ~~income~~ financial year under audit. The audit file ~~should~~ may also contain a copy of the bank reconciliation, the analytical review of the cash balances ~~along with~~ and evidence of the various transaction testing undertaken by the auditor.

~~101.98.~~ As an alternate method of obtaining independent information regarding ~~the~~ cash transactions, the auditor may request the SMSF ~~Trustee~~ trustee to request the financial institution to provide copies of the bank statements to the auditor 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.

~~102.99.~~ If the SMSF only obtains paper statements, the ~~Trustee~~ trustee may request the bank to issue duplicates to the auditor; however, this may create a records management issue over time.

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*Data-feeds and audit evidence*

~~103.~~100. 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.

~~104.~~101. ~~“‘Direct-~~connect~~’~~connect~~’ transmission—, that is, an 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~~ However, there may be some likelihood that ~~the auditor may encounter processingtransmission~~ errors. ~~It may be encountered in this environment. Therefore, it~~ is important ~~therefore~~ that the auditor ~~understandunderstands~~ the control environment that is supporting the data feed process. The auditor would normally request a ~~“‘Typean ASAE 3402 type 2” Audit Report assurance report~~ to provide evidence of the effectiveness of the control environment, to ~~preventassess if there is any~~ material misstatement of the financial report. If no assurance 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.~~

102. ~~Consideration~~Where data feeds are prepared via an aggregator ('scrapped data feeds') the auditor considers evaluating the integrity of the data. The auditor considers whether conducting their own testing of the information collected via this form of data feed, will assist in obtaining appropriate audit evidence that can be included on the audit file.

~~105.~~103. Further consideration by the auditor may be necessary where the ~~party~~ preparingpreparer of the financial report utilises manual file imports from financial institutions and the auditor may not be able to rely on the integrity of the information ~~cannot be relied on by the auditor.~~

~~106.~~104. 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 ~~8299~~ to ~~86~~102 above.

~~107.~~105. ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence, which include:

- ~~Inspectioninspection~~ of records or documents;
- ~~Inspectioninspection~~ of tangible assets;
- ~~—~~Observation;
- ~~—~~Enquiry;
- ~~—~~Confirmation;
- ~~—~~Recalculation;
- ~~Reperformanceeobservation;~~
- enquiry;
- confirmation;
- recalculation;

- [reperformance](#); or
- ~~Analytical~~[analytical](#) review.

~~408.~~[106.](#) ~~\_\_\_\_\_~~ 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*

~~409.~~[107.](#) ~~\_\_\_\_\_~~ 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.

~~440.~~[108.](#) ~~\_\_\_\_\_~~ 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*

~~441.~~[109.](#) ~~\_\_\_\_\_~~ 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*

~~442.~~[110.](#) ~~\_\_\_\_\_~~ 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*

~~443.~~[111.](#) ~~\_\_\_\_\_~~ 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.

~~444.~~[112.](#) ~~\_\_\_\_\_~~ 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.

~~445.~~[113.](#) ~~\_\_\_\_\_~~ Enquiry alone ordinarily does not provide sufficient [appropriate](#) 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.

~~146.~~114. The auditor obtains written representations from the ~~trustee~~trustee 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.<sup>79</sup>

#### *Confirmation*

~~147.~~115. 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.<sup>80</sup>

#### *Recalculation*

~~148.~~116. 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*

~~149.~~117. 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.~~118. 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.~~119. 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 ~~trustee~~trustee or deviates from predicted amounts.

~~122.~~120. 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.

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<sup>79</sup> See ASA 580 for further requirements and explanatory guidance on written representations.

<sup>80</sup> See ASA 505 for further requirements and explanatory guidance on external confirmations.

## Audit Documentation

~~123.~~121. \_\_\_\_\_ 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.

~~124.~~122. \_\_\_\_\_ 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.~~123. \_\_\_\_\_ 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.~~124. \_\_\_\_\_ The form, content and extent of audit documentation depend on factors such as the:

- 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.~~125. \_\_\_\_\_ 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.~~126. 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<sup>81</sup> after the date the audit report is signed.

~~129.~~127. 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.~~128. 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.~~129. 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.~~130. 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<sup>82</sup> 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.~~131. Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:

- ~~Matters~~matters that give rise to significant risks (as defined in ASA 315);
- ~~Results~~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~~circumstances that cause the auditor significant difficulty in applying necessary audit procedures; and
- ~~Findings~~findings that could result in a modification to the auditor's report.

~~134.~~132. 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.

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<sup>81</sup> See section 307B of the *Corporations Act 2001*.

<sup>82</sup> See ASIC Class Order 12/1687, paragraph 48.

## Representations

~~135.~~133. Under ASA 580 and ASAE 3100, the auditor seeks written representations from the ~~trustees~~trustee 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~~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.~~134. In instances where the auditor's contact with the ~~trustees~~trustee is limited, and may only be at the conclusion of the engagement, in the ~~interests~~interest of having a more efficient audit approach the auditor may consider obtaining certain confirmations from the ~~trustees~~trustee at the planning stage of the engagement, for example, regarding the eligibility of ~~trustees~~the trustee, safe-guarding of assets and fraud.

~~137.~~135. With respect to the financial audit of a SMSF, under ASA 580, the auditor obtains written representations from the ~~trustees~~trustee, including that they:

- ~~Acknowledge~~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~~have approved the financial report;
- ~~Confirm~~confirm specified matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist;
- ~~Acknowledge~~acknowledge their responsibility for the design and implementation of internal control to prevent and detect error; and
- ~~Believe~~believe the effect of uncorrected misstatements aggregated by the auditor is immaterial, both individually and in aggregate, to the financial report.

~~138.~~136. The auditor may also seek representations under ASAE 3100, with respect to the compliance engagement, that the ~~trustees~~trustee:

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

~~139.~~137. 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.~~138. Representations by the ~~trustees~~trustee cannot replace other evidence the auditor could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the 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.~~139. 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

~~142.140.~~ SMSFs may use service organisations to provide investment management services including:

- ~~Custody~~custody (including ~~investor directed portfolio services (IDPS)~~ such as WRAP accounts);
- ~~Asset~~asset management (including ~~Hedge~~hedge fund management and ~~Private Equity~~private equity).
- ~~Property~~property management;
- ~~Investment~~investment administration, including fund accounting and/or fund administration;
- ~~Registry~~registry; and
- ~~Valuation~~valuation services.

These investment management services may take various forms including WRAP<sup>83</sup> 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~~.

~~143.141.~~ The use of a service organisation ~~may provide by a SMSF is a consideration for the opportunity to reduce auditor when planning the level of~~ 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’ type 1 report or ‘Type 2’ Audit Report type 2 controls report~~. ASAE 3402 provides detailed requirements and guidance on the preparation of these ~~audit assurance~~ reports.

*Type 1 or Type 2 [Reports on Controls](#)*

*[A type 1](#) report*

~~144.142.~~ ~~A Type 1 Report~~ provides an opinion ~~on the description and design of effectiveness of controls at the service organisation’s internal control environment as described organisation, provided~~ 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.~~

~~145.143.~~ ~~A Type 2 Report~~A type 2 report provides a further opinion over the effectiveness of controls beyond that of a type 1 report and includes the service auditor’s opinion on the management’s description of the control environment after tests of the controls are undertaken and, therefore, ~~The type 2 report~~ may be ~~able to be used in some circumstances~~ to reduce the level of substantive testing undertaken by the SMSF auditor.

~~146.144.~~ The extent of the reliance ~~able~~ to be placed on a -service auditor’s ~~assurance~~ report provided in conjunction with a service entity’s ~~Annual Investor Statement (Tax Report) annual investor statement~~ is determined after a review of -the assertions made relevant to information

<sup>83</sup> ~~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.~~

contained in the report. For example, does the [audit assurance](#) report limit the scope of the [engagement undertaken by 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 tax statement](#). Where the fund uses a custodian but the custodian does not engage an independent auditor to issue a ASAE 3402 [assurance](#) 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.~~<sup>145.</sup> A ~~Type~~<sup>2</sup> ~~Report~~<sup>report on controls</sup> 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 assurance](#) report. SMSF auditors [need to](#) ensure that any report issued ~~is in compliance~~<sup>complies</sup> with ASAE 3402 requirements otherwise further [audit](#) procedures ~~and evidence~~ may be required ~~by the auditor to obtain sufficient appropriate audit evidence~~. Greater consideration may be necessary if the service ~~provider~~<sup>organisation</sup> 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.~~<sup>146.</sup> ~~Nevertheless, The~~ 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.

~~150.~~<sup>147.</sup> Operators of IDPSs<sup>84</sup> and IDPS-like services are required ~~by~~<sup>under</sup> [ASIC Class Orders](#) CO 13/762<sup>85</sup> or CO 13/763<sup>86</sup> 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.

<sup>84</sup> "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.

<sup>85</sup> See ASIC Class Order 13/762 *Investor Directed Portfolio-like Services provided through a registered managed investment Schemescheme*.

<sup>86</sup> See ASIC Class Order 13/763 *Investor Directed Portfolio Services*.

~~151.~~148. 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 148.71 to 75 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~~three 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~~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~~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.~~149. 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.~~150. 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.

~~154.~~151. 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.~~152. In general, it is likely to be cost prohibitive for a SMSF auditor to ~~obtain direct~~undertake assurance ~~procedures directly~~ of an IDPS control environment ~~and therefore reliance on the~~. Where appropriate the SMSF auditor obtains the ASIC Class Order CO 13/763 ~~Audit Report~~audit report and applying professional judgment, ~~to determine~~determines an appropriate risk ~~rating~~assessment for the SMSF audit. The risk ~~rating~~assessment for the audit determines the level of testing required for individual ~~entries that underpin the~~ financial ~~statement entries~~report, 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~~tax statement.

~~156.~~153. Where the SMSF auditor is unable to obtain sufficient appropriate audit evidence ~~as all records are held at~~regarding the services provided by the service organisation, ~~they ordinarily consider whether it appropriate relevant to disclaim an opinion, or even express the~~ audit of the SMSF's financial report, a limitation on the scope of the audit exists. Whether the

SMSF auditor expresses a qualified opinion ~~if or disclaims an opinion depends on the SMSF auditor's conclusion as to whether~~ the possible effects on the financial report are material or pervasive<sup>87</sup>.

## Using the Work of an Expert

~~157.~~154. 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 Guidance Statement 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 ~~trustee~~trustee) (GS-005).

~~158.~~155. 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.~~156. Actuaries and valuers are experts generally appointed by the ~~trustees (a management's expert) trustee~~ 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.

~~160.~~157. The ~~trustees are~~trustee is 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.<sup>88</sup> 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~~exempt current pension income (ECPI) if it paid any other type of pension.

~~161.~~ Since 1 July 2017, SMSFs that are classified as having disregarded small fund assets<sup>89</sup> are required to use the proportionate method for exempt pension income calculation, regardless of ~~if whether~~ the fund is 100% per cent in the retirement phase.

<sup>87</sup> See paragraph A42 of ASA 402 for further explanatory material.

<sup>88</sup> See ~~Section~~section 295-390 of the ITAA 1997.

<sup>89</sup> Section 295-387 ITAA 1997.

~~162.158.~~ A SMSF has disregarded small fund assets if at least one fund member has a retirement phase income stream and:

- (a) a fund member has a total super balance ~~of at least~~that exceeds \$1.6m; ~~or 6 million;~~  
and
- (b) that member is receiving a retirement phase income stream from any source.

A SMSF can have ~~disregarded small~~ assets<sup>90</sup> even if no members have ~~pensions of an income stream exceeding~~ \$1.6m 6 million or above in the SMSF. The only condition that must be present in the SMSF is that there is at least one member in the retirement phase. The remaining conditions can exist outside of the SMSF.

~~163.159.~~ ~~Under this interpretation, a~~ SMSF that is 100% per cent in pension phase will be required to obtain an ~~Actuarial Certificate~~<sup>90</sup> actuarial certificate that states the ECPI percentage is 100% per cent.

~~164.160.~~ 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~~assess the competence, capabilities and objectivity of the actuary;
- (b) ~~Obtain~~obtain an understanding of the work of the actuary; and
- (c) ~~Evaluate~~evaluate the appropriateness and adequacy of the work of the actuary, including:
  - (i) ~~Assessing~~assessment of 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 the~~ 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.

~~165.161.~~ 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.

<sup>90</sup> 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 been legislated as at the time of writing.

## PART A – FINANCIAL AUDIT

~~166.~~162. 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.

~~167.~~163. 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~~ASA 210<sup>91</sup> 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 ~~AAS~~Australian Accounting Standards and the ~~trustees determine~~trustee determines the applicable financial reporting framework which they will apply to the SMSF's financial report.<sup>92</sup>

### Financial Reports

~~168.~~164. An accumulation fund, or defined contribution fund, is a fund which is not a defined benefits fund.<sup>93</sup> The benefits payable to members on satisfying a condition of release in an accumulation fund are determined by the accumulated contributions made to the fund and the investment income thereon, as well as any insurance benefit available, less any expenses or other deductions.

~~169.~~165. 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.

~~170.~~166. 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.<sup>94</sup> This Guidance Statement does not deal with the audit of these funds.

~~171.~~167. Typical account categories in an SMSF's financial report include:

- Assets:
  - Cash and cash equivalents;
  - Investments;
  - Receivables; and

<sup>91</sup> See paragraph 6 of ASA 210.

<sup>92</sup> If a SMSF is a reporting entity ~~OR the, or where its trust deed – establishing the fund, created or amended, from on or after 1 July 2020~~2021, requires the financial ~~statements report~~ to be prepared in accordance with the ~~AAS~~Australian Accounting Standards (AAS), the SMSF is required to prepare ~~general purpose financial reports~~a GPFR and adhere to the ~~Australian Accounting Standards AAS~~ in the preparation of that report.

<sup>93</sup> Definition from regulation 1.03(1) of the SISR.

<sup>94</sup> See Regulations 8.02 and 8.03 of the SISR.

- Prepayments.
- 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 [statementsreport](#)).
- 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 [154182](#) to [236253](#), and illustrative financial audit procedures are also provided in Appendix 4 of this Guidance Statement.

## Assertions and Audit Evidence

[172.168.](#) 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~~ [trustee makes](#) assertions implicitly or explicitly (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report, including related disclosures.

[173.169.](#) In accordance with ASA 315<sup>95</sup>, 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.

[174.170.](#) 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:

<sup>95</sup> See paragraph A190 of ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, issued in February 2020. This standard is operative for financial reporting periods commencing on or after 15 December 2021, with early adoption permitted.

- 
- (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.
  - (vi) Presentation – transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.
  - (b) Assertions about SMSF account balances, and related disclosures 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;~~
    - ~~(v) Classification and understandability – financial information is presented and described – assets, liabilities and equity interests have been recorded in the proper accounts.~~
    - ~~(iii)~~ (vi) Presentation - assets, liabilities and member entitlements are appropriately, aggregated or disaggregated and disclosures are expressed clearly; and described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.
    - ~~(iv) Accuracy, valuation and allocation – financial and other information have been appropriately measured and described.~~

## Materiality

~~175.~~171. 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~~total gross assets;
- ~~Net assets~~;
- ~~Total~~net assets;
- total member entitlements;
- ~~Total~~total gross income; and
- ~~Total~~total expenses.

~~176.~~172. 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.

~~177.~~173. 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~~the significance of a misstatement to the SMSF;
- ~~The~~the pervasiveness of a misstatement; and
- ~~The~~the effect of a misstatement on the financial report as a whole.

~~178.~~174. 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

~~179.~~175. 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.

~~180.~~176. When the prior period's financial report was audited by a another auditor, the current auditor may be able to obtain sufficient appropriate 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.

~~181.~~177. 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.

~~182.~~178. GS 011 *Third Party Access to Audit Working Papers* provides Example Letter E as a template guide for auditors when wanting to request access 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.

~~183.~~ 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 on 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 considers carrying out additional audit procedures relating to the opening balances.

~~184.~~179. 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 they contain material misstatements, are correctly brought forward and that the accounting policies have been consistently applied in the current period.

~~185.~~180. 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~~298 to ~~306~~302.

## Cash and Cash Equivalents

~~186.~~181. 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.

~~187.~~182. The audit assertions for auditing a SMSF's cash and cash equivalents are:

- Existence – obtaining evidence that the cash exists and is correctly classified; and
- Rights and obligations (ownership) – obtaining evidence that the cash is owned directly or beneficially by the SMSF; and
- 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.

~~188.~~183. 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~~trustee but by those parties that may have access to a fund's bank accounts.

~~189.~~184. If the banking operations are significant to the audit, the auditor sends bank audit confirmation requests<sup>96</sup> 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.

~~190.~~185. 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

~~191.~~186. 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~~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<sup>97</sup> such as artwork, antiques, wine and recreational boats.

<sup>96</sup> For an example of a ~~Bank Audit Confirmation~~bank audit confirmation, refer to GS 016.

<sup>97</sup> Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

~~192.~~187. Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.

~~193.~~188. 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~~Accuracy, 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.

~~194.~~189. Audit risks to be considered in relation to auditing investments may include, but are not limited to:

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

~~195.~~190. The audit procedures relating to investments will vary depending on the administration and management arrangements adopted by the ~~trustee~~trustee, 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*

~~196.~~191. 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 ~~trustee~~trustee, 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*

~~197.~~192. 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 ~~trustee~~trustee 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*

~~198.~~193. As the SMSF's financial report is generally a special purpose financial report, the ~~trustees choose~~trustee chooses the financial reporting framework under which the SMSF reports. ~~Trustees exercise~~The trustee exercises their discretion when determining the most

appropriate market value<sup>98</sup> 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.

~~199.~~194. When preparing year end accounts, SMSF assets are required to be valued at market value each financial year.<sup>99</sup> Market value is defined in the SISA<sup>100</sup> and the ATO's guidance on the process to establish a market value is contained in its *Valuation guidelines for self-managed superannuation funds*.

~~200.~~195. 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.

~~201.~~ 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.

~~202.~~196. 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.

~~203.~~197. 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, including:

- (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~~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~~debits and credits within the account; and
- (c) the value of a member's death benefit. Material misstatement in the financial ~~statements~~report of a SMSF when a member dies can lead to a delay in the payment of the proceeds.

~~204.~~198. 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

<sup>98</sup> See ~~Regulation~~regulation 8.02B of the SISR.

<sup>99</sup> See ~~Regulation~~regulation 8.02B of the SISR.

<sup>100</sup> See ~~Subsection~~subsection 10(1) of the SISA.

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.

~~205.199.~~ 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.

~~206.200.~~ ~~Investment~~Investments in unlisted companies or trusts may need ~~some~~ further consideration ~~by the auditor in order to gain~~obtain assurance ~~that~~ the valuation is appropriate. Difficulties may arise when the company or trust ~~report~~reports on an 'at cost basis'. ~~Applying~~Where the investment is not subject to a valuation process, the auditor applies professional judgement, ~~the auditor assesses to assess~~ 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; ~~and~~
- (d) whether it is reasonable for the SMSF trustee to undertake a valuation of a fund asset. ~~That - that~~ is, ~~whether~~ 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~~may not have the competency to undertake the valuation of the asset.

~~207.201.~~ 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.

~~208.202.~~ 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~~SMSF's annual return will report the Part A ~~Audit~~audit qualification.

~~209.203.~~ 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.

~~210.204.~~ 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*

~~211.~~ <sup>101</sup> IDPS 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 of a SMSF may be able to 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 annual investor statement<sup>102</sup> and auditor's report, that is provided in relation to an IDPS or a service organisation's report under ASAE 3402 and GS 007 ("type 2 report") and the audit report provides, as audit evidence on of the operating effectiveness over of controls at over the service organisation.~~

~~212.205.~~ 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 services outsourced. However, 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 may still be required to conduct substantive 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 for all material balances and transactions under ASA 330 to support their financial audit opinion. If the annual investor statement is a primary document for the preparation of the SMSF's financial report, the risk assessment performed by the auditor may depend on whether a type 2 control report is provided and the level of assurance provided by the service organisation auditor.

~~213.206.~~ 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 SMSF.

~~214.207.~~ Investments held by an IDPS operator under the investor's HIN (holder identification number) (HIN), rather than under a custodial arrangement, are able to be verified directly by the auditor, regardless of the location of the records. If (for example via 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 share registry for listed equities).

~~215.208.~~ For investments for which recording of material balances or transactions is are controlled by the service organisation but, with 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 in themselves. If coupled with evidence of the operating effectiveness of controls within the IDPS operator or service organisation, by a type 2 report, in addition to the confirmation of balances with the service organisation and along with an analytical review on

<sup>101</sup> See paragraph 142 of this Guidance Statement for a description of IDPS reports.

<sup>102</sup> IDPS operators provide investors with an annual tax statement to provide consolidated information about their investment portfolio and to assist them with the completion of their tax obligations.

~~procedures on~~ of the SMSF's investment activity, the auditor may be able to obtain sufficient appropriate evidence.

~~246.209.~~ For a standalone investment mandate, where the IDPS operator 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.

~~247.210.~~ 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. type 2 report) in conjunction with:

- performance of 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.

~~248.211.~~ 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., for example~~ personal bank statements, verification of dividend and trust distributions against published information independent 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.~~

~~249.~~ ~~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.

~~220.212.~~ 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

~~224.213.~~ 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.

~~222.214.~~ 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.

~~223-215.~~ Prepayments are tested against cash payments and particular attention is paid to transactions with related parties to ensure they relate to a genuine expense.

~~224-216.~~ Unpaid present entitlements (UPE) from related trusts risk being caught as a contravention of; the ~~in-house asset~~IHA rules (~~IHA~~ in Part 8; ~~of the SISA~~), the arm's length rules ~~at s. (section 109 of the SISA)~~ and; the sole purpose test (SPT) ~~at s. 62 SISA 1993~~<sup>103</sup>, if not promptly paid. See ATO Ruling SMSFR 2009/3 Self Managed Superannuation Funds: application of the Superannuation Industry (Supervision) Act 1993 to unpaid trust distributions payable to a Self Managed Superannuation Fund 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~~distribution 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

~~225-217.~~ 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 ~~trustee~~trustee have provided for or incurred;
- Benefits payable, including benefits arising from insurance claims; and
- Bank overdrafts, other borrowings and related interest payable.

~~226-218.~~ 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~~Accuracy, valuation~~ and allocation – liabilities are recorded at appropriate amounts and allocated to the appropriate account.

~~227-219.~~ Generally, SMSFs are not permitted to borrow. Permitted exceptions are set out in s67 of the SISA and include temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions surcharge,<sup>104</sup> and the 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~~further~~ exception for limited recourse borrowing arrangements and set out the requirements that ~~are~~ required~~need~~ to be met ~~before the limited recourse borrowing is accepted.~~

<sup>103</sup> See section 652 of the SISA.

<sup>104</sup> 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.

~~228~~220. Audit risks to be considered in relation to auditing liabilities may include, but are not limited to:

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

~~229~~221. 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

~~230~~222. The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.

~~231~~223. Accrued benefits of a SMSF may arise from:

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

~~232~~224. 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.

~~233~~225. Audit risks for accrued benefits include, but are not limited to:

- ~~Contributions~~contributions not being allocated correctly to members;
- ~~Income~~income not being allocated correctly or appropriately to individual members;
- ~~Benefit~~benefit payments or expenses being allocated incorrectly to member's balances; and
- ~~Member~~member balances not being carried forward correctly from one period to another.

## Vested Benefits

~~234.~~~~226.~~ 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<sup>105</sup> and accessing a [transition to retirement](#)<sup>106</sup> [income stream](#)<sup>107</sup> (TRIS-). Usually vested benefits are disclosed in the notes to the financial [statements](#)[report](#).

~~235.~~~~227.~~ Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member concessional and non-concessional contributions, [\(NCCs\)](#), mandated contributions (compulsory employer contributions) such as [Superannuation Guarantee \(SG\) contributions](#)[SGC](#) 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.<sup>108</sup>

~~236.~~~~228.~~ 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

~~237.~~~~229.~~ 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~~[investment](#) smoothing;
- ~~Anti~~[anti](#)-detriment;
- ~~Insurance~~[insurance](#); and,
- ~~General~~
- [general](#).

~~238.~~~~230.~~ 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~~[over time](#) and ~~audits~~[audit](#) checks include identifying if the reserve has been added to since 1 July 2017.

~~239.~~~~231.~~ Prior to 1 July 2019, anti-detriment payment reserves were utilised in order to fund 'tax saving amount(s)' in accordance with [sections](#) 295-485 [of the](#) ITAA 1997. These reserves were established to pay an additional benefit upon death, equivalent to the tax already

<sup>105</sup> 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.

<sup>106</sup> More information about [transition to retirement](#) is available on the ATO website [www.ato.gov.au](http://www.ato.gov.au) (search under [transition to retirement](#)).

<sup>107</sup> Other conditions of release include [a terminal medical condition, financial hardship and compassionate grounds](#).

<sup>108</sup> See regulation 5.08 of the SISR.

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.

~~240.232.~~ 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.

~~241.233.~~ 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 of the SISR-1994.

~~242.234.~~ 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.

~~243.235.~~ Contribution reserves are not considered to be a reserve and are referred to as an 'unallocated contribution suspense ~~aeecount~~ account'. The use of this account ~~allow~~allows funds to manage potential excess contributions, where a contribution is received ~~in~~within 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.<sup>109</sup> 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"<sup>110</sup> 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.

~~244.236.~~ The trustee is required to report an unallocated contribution to the ATO via a specified form<sup>111</sup>, otherwise, the member will be assessed under the excess contribution rules.

~~245.237.~~ The ATO has issued SMSF Regulator's Bulletin 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.

~~246.238.~~ Audit considerations for reserves include whether:

- ~~The~~the fund's governing rules permit the maintenance of reserves;
- ~~The~~the fund has a reserve strategy;<sup>112</sup>
- ~~The~~the assets of the particular reserve are segregated appropriately from the rest of the SMSF's assets;
- ~~Amounts~~amounts transferred in or out of the reserves are appropriate. An allocation from a reserve (~~apart from~~excluding 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% per cent of the member's balance. Pension reserve transfers are in accordance with the annual ~~Actuarial Certificate~~actuarial certificate; and

<sup>109</sup> See Regulationregulation 7.08 of the SISR.

<sup>110</sup> See ATO Taxation Determination TD 2013/22, which applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.

<sup>111</sup> See ATO form NAT 74851 —Request to adjust concessional contributions.

<sup>112</sup> See sectionsubsection 52B(2)(g) of the SISA.

- ~~Where~~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

~~247.~~239. 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.

~~248.~~240. 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.

~~249.~~241. Audit risks to be considered in relation to auditing revenue may include:

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

## Contributions and Transfers In

~~250.~~242. 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:<sup>113</sup>

- 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 [Capital Gains Tax](#) (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.

~~251.243.~~ 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.

~~252.244.~~ Audit risks to be considered in relation to contributions and transfers in may include, but are not limited to:

- ~~Incorrect~~ ~~incorrect~~ classification and allocation of concessional and ~~non-concessional contributions~~ ~~NCCs~~, and other contributions categories listed in paragraph ~~216~~ ~~242~~;

<sup>113</sup> See the *Self-Managed Superannuation Fund annual return* (NAT 71226).

- ~~Incorrect~~incorrect tax treatment of contributions;
- ~~Incorrect~~incorrect cut-off for contributions resulting in failure to recognise that contribution caps have been exceeded;
- ~~Incorrect~~incorrect allocation of the tax components of transfers in;
- ~~Acceptance~~acceptance of contributions in excess of the fund-capped contributions limit;<sup>114</sup>
- ~~Understatement~~understatement of market values for in-specie contributions to avoid exceeding the contributions caps; and
- ~~Under~~under or overstatement of market values for in-specie contributions, either to provide early access to benefits or to disguise loans to members.

253-245. 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 pay as you go (PAYG) information analytically.

## Expenses

254-246. 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
- Taxation.

255-247. 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~~;~~;

<sup>114</sup> Contributions caps are discussed in paragraph ~~230~~393 of this Guidance Statement.

- 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.

~~256.~~248. \_\_\_\_\_ Audit risks to be considered in relation to auditing expenses may include:

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

~~257.~~249. \_\_\_\_\_ Ordinarily, the auditor reviews any payments made to individual ~~trustee~~trustee or corporate ~~trustee~~trustee 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.<sup>115</sup>

## Tax Expense

~~258.~~250. \_\_\_\_\_ 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.~~ 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; ~~.~~
- Completeness – assessable income, including capital gains, received by the SMSF has been declared; ~~.~~
- Accuracy and ~~Valuation~~valuation – assessable income, including capital gains, allowable deductions, ~~exempt current pension income~~ECPI, 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, ~~and~~ 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.

~~259.~~251. \_\_\_\_\_ Income tax is payable on investment earnings (net of expenses) ~~),~~ including capital gains, imputation credits for dividends received from Australian companies, ~~.~~ and credits for

<sup>115</sup> See section 17(B) of the SIS Act.

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 ~~trustee~~trustee of an intention to claim a personal tax deduction (concessional contributions). Deductions are available for certain payments and expenses.

~~260.252.~~ 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.

~~261.253.~~ 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~~on 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*

~~262.254.~~ The ordinary income of ~~the~~a SMSF for tax purposes includes:

- ~~Investment~~investment earnings, such as interest, dividends, rent, trust distributions, and realised capital gains;
- ~~Concessional~~concessional contributions received during the year; and
- ~~Dividend~~dividend income derived but not yet received.

~~263.255.~~ Ordinary income does not include:

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

~~264.256.~~ 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*

~~265.257.~~ 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.

~~266.258.~~ 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.

~~267-259.~~ 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~~ NCCs cap. In these circumstances, the auditor confirms the contribution is supported by a CGT cap ~~Capital gains tax~~ election—~~instructions and~~ form.<sup>116</sup>

~~268-260.~~ 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.

~~269-261.~~ 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 the age of 55. Individuals over the age of 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.

~~270-262.~~ 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*

~~271-263.~~ ~~Non-arm's length~~<sup>117</sup> ~~income~~<sup>118</sup> (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 concessional. 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*

~~272-264.~~ 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*

~~273-265.~~ 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 ~~behave been~~ 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

<sup>116</sup> See ATO ~~form CGT cap election~~ (NAT 71161) ~~form and instructions~~.

<sup>117</sup> ~~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.~~

<sup>118</sup> ~~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.~~

auditor also verifies that capital losses and discounts appropriate to capital gains have been correctly calculated and applied.

~~274.266.~~ Additional testing may be required where the SMSF made a CGT ~~Relief~~~~relief~~ election in the 2017 income year. A list of investments that were subject to CGT deferral ~~should~~~~may~~ form a part of the audit working papers, and the auditor ordinarily tests ~~that~~ the ~~correct~~ calculation of the capital gain or loss ~~is accurate~~, if any of these deferred CGT assets were sold ~~in~~~~during~~ the ~~income year~~~~reporting period~~ under review.

#### *Goods and Service Tax*

~~275.267.~~ 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 ~~that~~ 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% ~~per cent~~ and not claimable on certain expenses, such as accounting fees for the preparation of the tax return or BAS, or on audit fees.

#### *Deductions*

~~276.268.~~ 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.<sup>119</sup> 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.

~~277.269.~~ 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~~ NALE are ~~those expenses~~ that are less than ~~the amount that the fund~~ ~~what~~ might have been expected to ~~incur~~ ~~be incurred by the fund~~ if dealing with the other party at arm's length, including where services or goods are received ~~for~~~~at~~ no cost.<sup>120</sup>

~~278.270.~~ 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 ~~in~~~~under~~ 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.<sup>121</sup>

#### *Actuarial Reports for Un-segregated Assets*

~~279.271.~~ Where a fund ~~that~~ does not qualify as holding “disregarded small fund ~~assets~~” ~~and assets~~, 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

<sup>119</sup> 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 *Income tax: deductibility of costs of amending a superannuation fund trust deed*, which discusses the deductibility of amending a deed.

<sup>120</sup> ATO Draft Law Companion Ruling LCR 2019/D3 *Non-arm's length income – expenditure incurred under a non-arm's length arrangement* provides the ATO's views on non-arm's length income (NALI) and non-arm's length expense (NALE).

<sup>121</sup> Guidance and information on how ~~exempt current pension income~~ ECPI 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](http://www.ato.gov.au) (search under ECPI).

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~~ ECPI for the SMSF.

## Benefits Paid

~~280-272.~~ Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65 years, death, physical or mental incapacity,<sup>122</sup> termination of employment, or reaching preservation age and commencing a ~~transition to retirement~~<sup>123</sup> ~~income stream~~<sup>124</sup> ~~(TRIS)~~ TRIS. In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.<sup>125</sup>

~~281-273.~~ SMSFs may pay benefits by way of a lump sum (in cash or in specie<sup>126</sup>), pension or insurance benefit.<sup>127</sup> 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).

~~282-274.~~ 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~~ 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.

~~283-275.~~ Audit risks to be considered in relation to auditing benefits may include, but are not limited to:

- ~~Payment~~ payment of a benefit to which the member or beneficiary is not entitled, providing early access to benefits~~;~~
- ~~Incorrect~~ incorrect calculation of a benefit payment~~;~~
- ~~Payment~~ payment of a benefit to an incorrect member or beneficiary~~;~~

<sup>122</sup> This can be permanent or temporary incapacity which ~~stops~~ prevents the member from engaging in gainful employment.

<sup>123</sup> ~~More information about transition to retirement is available on the ATO website [www.ato.gov.au](http://www.ato.gov.au) (search under transition to retirement).~~

<sup>124</sup> ~~Other conditions of release include a terminal medical condition, financial hardship and compassionate grounds.~~

<sup>125</sup> 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~~ 278-280 for further guidance on benefit splitting.

<sup>126</sup> Assuming in-specie payments are permitted by the fund's governing rules.

<sup>127</sup> 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.

- ~~Pension~~pension payments not paid in cash; ~~and~~
- ~~Minimum~~minimum payments not made for all pensions and the maximum payment for a TRIS is exceeded.

~~284.~~276. 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.

~~285.~~277. 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*

~~286.~~278. 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:

- ~~Superannuation~~superannuation agreement – negotiated between the divorcing parties and certified by two legal practitioners who represent the respective divorcing parties;
- ~~Consent~~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;
- ~~Arbitrated~~arbitrated court order – where the divorcing parties are unable to agree on the settlement terms and the court decides the settlement amount and terms;
- ~~Notice~~notice by a non-member;<sup>128</sup>
- ~~Notice~~notice by a trustee of information regarding an interest subject to a payment split;<sup>129</sup>
- ~~Payment~~payment split notice by a trustee to both member and non-member;<sup>130</sup> and
- ~~One~~one of the following notices by the non-member spouse to the ~~trustee~~trustee to:
  - create a new interest;<sup>131</sup>
  - rollover or transfer benefits;<sup>132</sup> or
  - pay a lump sum where a non-member has met a condition for release.<sup>133</sup>

~~287.~~279. 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

<sup>128</sup> See notice under regulation 72 of the *Family Law (Superannuation) Regulations 2001*.

<sup>129</sup> See notice under regulation 2.36C of the SISR.

<sup>130</sup> See notice under regulation 7A.03 of the SISR.

<sup>131</sup> See notice under regulation 7A.03C or 7A.05 of the SISR.

<sup>132</sup> See notice under regulation 7A.03D or 7A.06 of the SISR.

<sup>133</sup> See notice under regulations 7A.03E or 7A.07 of the SISR.

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 [of SISA](#) 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.

~~288-289.~~ 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*

~~289-281.~~ 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.<sup>134</sup> 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.

~~290-282.~~ 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,<sup>135</sup> the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

~~291-283.~~ 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.<sup>136</sup> 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.<sup>137</sup>

~~292-284.~~ 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

<sup>134</sup> ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

<sup>135</sup> Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph ~~361~~[312](#) of this Guidance Statement.

<sup>136</sup> See regulation 9.38(1) of the SISR.

<sup>137</sup> See regulation 9.35 of the SISR.

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.<sup>138</sup> 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.

**293.285.** Having considered the matters described in paragraphs **244.281** to **247.284**, 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.

**294.286.** Under ASA 570, the auditor communicates to the ~~trustees~~trustee 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 **344.305** to **348.309**.

#### *Subsequent Events*

**295.287.** 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'~~trustee minutes, making enquiries of the SMSF's lawyers concerning litigation or a divorce, and making enquiries of the ~~trustees~~trustee 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.

**296.288.** 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~~trustee decides 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.

<sup>138</sup> See regulation 9.17 of the SISR.

### *Winding-Up*

~~297.~~289. If the ~~trustees decide~~ trustee decides to wind up the SMSF, the SMSF still needs to be audited for the relevant financial year.

~~298.~~290. Upon winding-up, an audit is performed with increased focus in the areas of:

- ~~Liquidated~~ liquidated investments – to determine whether they were realised for cash or transferred in-specie and what value was received;
- ~~Benefit~~ 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~~ final income year that the tax and lodgement levy has been paid;
- ~~Cash~~ 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~~ rollovers – to test whether they were paid to and received by complying superannuation funds.

~~299.~~291. 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*

~~300.~~292. When a SMSFs audit is transferred from one auditor to another, the new auditor needs to ~~follow~~ adhere to the requirements of 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*

~~301.~~293. 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**

~~302.~~294. With respect to the financial audit, ~~the SISA,~~ section 35C, of the SISA requires the auditor to:

- (a) give a report to the ~~trustees~~ trustee, in the approved form, on the financial operations of the entity for that year; and

- (b) give the ~~trustee~~<sup>trustee</sup> the auditor's report in the approved form,<sup>139</sup> 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~~<sup>annual return</sup>.<sup>140</sup>

~~303.~~<sup>295.</sup> 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.

~~304.~~<sup>296.</sup> 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.

~~305.~~<sup>297.</sup> 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*

~~306.~~<sup>298.</sup> Modifications to the auditor's opinion under ASA 705 may be ~~either one of the following~~:

- (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<sup>141</sup>.

299. 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.

#### *Modified opinion*

~~ASA 705 requires an auditor to modify their~~Qualified Opinion

~~307. — A qualified opinion in the audit report when:~~

- ~~(a) — based on the audit evidence may be issued for a SMSF where the financial report is not free from, material misstatement.~~

<sup>139</sup> The ATO approved form auditor's report is available at [www.ato.gov.au/superfunds](http://www.ato.gov.au/superfunds).

<sup>140</sup> See regulation 8.03 of the SISR.

<sup>141</sup> Recent case law *Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502; *Cam & Bear Pty Ltd v McGoldrick* [2018] NSWCA 110, indicates SMSF auditors have 'significant ability to detect and prevent loss' and 'to protect the (audit) fund against financial risks'. The Part A financial audit is undertaken in order for the auditor to express an opinion on the likelihood of material misstatement in the financial report and that audit opinion must be made by an independent auditor.

- (b) ~~the auditor materially misstated or there is an~~ unable inability to obtain sufficient appropriate audit evidence which is not as material and pervasive as to conclude the financial report is free from material misstatement.

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

### *Qualified opinion*

~~308. ASA 705 requires an auditor to qualify their or a disclaimer of 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.~~

~~309-300.~~ 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".<sup>142, 143</sup> An example of a qualified opinion in the context of a SMSF audit is where the auditor is not able to obtain evidence of the 'market' valuation of unlisted investments.

### *Adverse Opinion*

~~310. ASA 705 requires the auditor to express an~~ An ~~adverse opinion is expressed when, having obtained sufficient appropriate audit evidence, they conclude that misstatements, individually or in the effect of the aggregate, are both~~ misstatement is so material and pervasive to the financial report.

~~311-301.~~ 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".

### *Disclaimer Opinion*

~~312.~~ 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:~~

<sup>142</sup> ~~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.~~

<sup>143</sup> See 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 per cent per cent of the loss incurred due to their negligence in not qualifying the audit report.

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

~~313.302. 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*

~~314.303.~~ 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 ~~that~~, 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<sup>144</sup> includes the required wording.

~~315.304.~~ An auditor's report may also include an emphasis of matter paragraph to highlight ~~that~~:

- (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*

~~316.305.~~ An auditor's report may include ~~another~~ an other 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.

~~317.1. 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~~

<sup>144</sup> 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>.

~~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~~*

~~318. 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'.<sup>145</sup> 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.~~

<sup>145</sup> ~~*Ryan Wealth Holdings Pty Ltd v Baumgartner* [2018] NSWSC 1502; *Cam & Bear Pty Ltd v McGoldrick* [2018] NSWCA 110.~~

*Communication of Audit Matters*

~~319-306.~~ Under ASA 260, the auditor communicates matters of governance interest arising from the audit to the ~~trustee~~<sup>trustee</sup> on a timely basis, to enable the ~~trustee~~<sup>trustee</sup> to take appropriate action. Ordinarily, the auditor initially discusses with the ~~trustee~~<sup>trustee</sup> 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 ~~trustee~~<sup>trustee</sup> with an opportunity to clarify facts and issues and to provide further information.

~~320-307.~~ The auditor is also required under ASA 260 to inform the ~~trustee~~<sup>trustee</sup> 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.

~~321-308.~~ Under ASA 260, the communication may be made orally or in writing<sup>146</sup>; 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.

~~322-309.~~ 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.

~~323-310.~~ Under ASA 250, any non-compliance which the auditor considers to be intentional and material, is communicated to the ~~trustee~~<sup>trustee</sup> without delay. The auditor's statutory reporting responsibilities in relation to matters of non-compliance may also necessitate reporting of such matters to the ~~trustee~~<sup>trustee</sup> and the ATO under section 129 of the SISA (see paragraphs ~~360-367~~<sup>146</sup>). ~~425-432~~<sup>146</sup>).

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<sup>146</sup> 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

~~324.~~311. 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.

~~325.~~312. 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.

~~326.~~313. 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.<sup>147</sup>

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<sup>147</sup> The ATO's electronic superannuation audit tool (eSAT), may provide assistance and is available on the [ATO website](http://www.ato.gov.au/eSAT) ([www.ato.gov.au/eSAT](http://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 <sup>148</sup> Part B SISA/SISR	ACR <sup>149</sup> SISA/SISR
<u>Establishment and operation of the SMSF</u>	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 <sup>150</sup>	
	Maintains copies of all member or beneficiary reports for a minimum of 10 years.	S.105 <sup>151</sup>	
	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
<u>Sole purpose</u>	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
<u>Investment considerations</u>	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) <del>or R.4.09A</del>
	Prohibition on lending or providing financial assistance to member or relative.	S.65	S.65

<sup>148</sup> Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July 2019 (NAT 11466).

<sup>149</sup> Auditor-actuary contravention report (ACR) (NAT 11239) available through the ATO's website using eSAT or by ordering a paper form.

<sup>150</sup> 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.

<sup>151</sup> 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 <sup>148</sup> Part B SISA/SISR	ACR <sup>149</sup> SISA/SISR
	Restrictions on borrowings.	S.67, S.67A, S.67B	S.67
	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
<u>Benefits restrictions</u>	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	-
<u>Contributions restrictions</u>	Accepts contributions within specified restrictions.	R.7.04	R.7.04
<u>Investment returns</u>	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	-
<u>Solvency</u>	Unsatisfactory financial position.	-	S.130 <sup>152</sup>
<u>Other regulatory information</u>	Information regarding the SMSF or trustees which may assist the ATO, including compliance with other relevant SISA sections and SISR regulations.	-	Ss129S and 130A <sup>153</sup>

## Materiality

**327:314.** 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.

**328:315.** 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'~~ trustee's 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;

<sup>152</sup> 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 [Regulation](#) 9.04 of the SISR for the narrow definition of "unsatisfactory financial position".

<sup>153</sup> Other regulatory information is reported separately from other contraventions in Section G of the ACR and the seven tests set out in the ACR instructions are not applicable.

- ~~Whether~~[whether](#) the breach was intentional; and
- ~~Actual~~[actual](#) or potential damage to members of a breach of the SISA or SISR occurring.

## Establishment and Operation of the SMSF

~~329.~~[316.](#) 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.<sup>154</sup>

### Definition of SMSF

~~330.~~[317.](#) To determine if the SMSF meets the definition of a SMSF,<sup>155</sup> the auditor may conduct procedures including:

- ~~Examination~~[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;
- ~~Aa~~ company search to ascertain if the directorship of a trustee company is consistent with the requirements of section 17A of the SISA;
- ~~Enquiry~~[enquiry](#) to identify members, employers and trustees and their relationships with one ~~another~~[another](#);

<sup>154</sup> See subsection 35C(2) of the SISA.

<sup>155</sup> The definition of a SMSF is in section 17A of the SISA. Also refer to [ATO Ruling SMSFR 2010/2](#) – *The scope and operation of subparagraph 17(A)(3)(b)(ii) of the SISA* and ATO ID 2010/139 [SMSFs](#) Subparagraph 17(A)(3)(b)(i) of the SISA – *tribunal appointed administrator of the plenary estate of a person with a mental disability*.

- ~~Testing~~ 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~~ obtaining trustee representations.

#### *Disqualified Persons*

~~331.~~ 318. An individual SMSF trustee is disqualified under the SISA<sup>156</sup> 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.

~~332.~~ 319. 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.

~~333.~~ 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.

~~334.~~ 320. The ATO publishes a ~~Disqualified~~ 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.

~~335.~~ 321. In addition, ASIC provides details of persons disqualified ~~persons in respect of from acting as~~ corporate trustees. Auditors are able to search the 'banned and disqualified ~~register~~ register' on the ASIC website, for information about individuals who have been disqualified from involvement in the management of a company.

~~336.~~ 322. 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 ASFA's~~ against the Australian Financial Security Authority's National Personal Insolvency Index (NPII) 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*

~~337.~~ 323. 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

<sup>156</sup> See subsection 120(1) of the SISA. Also refer to ATO ID 2011/24 *Waiver of disqualified person status – meaning of 'serious dishonest conduct'*.

appointed after 30 June 2007, they have signed and retained a [“Trustee Declaration”](#)<sup>157</sup> [trustee declaration](#) for at least ten years.

**338.324.** The SISA requires that the records be kept in the English language or a form that is readily convertible to English<sup>158</sup> 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.

**339.325.** 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 subsection](#) 35C-(2) of [the](#) 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*

**340.326.** 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.<sup>159</sup> The auditor may obtain representations from the trustees that no such arrangement has been entered into.

#### *Investment Strategy*

**341.327.** The SISR<sup>160</sup> 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](#)~~whether~~ the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

**342.328.** 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

<sup>157</sup> –The *Trustee Declaration* is an approved form issued by the ATO (NAT 71089), available from the ATO’s website at [www.ato.gov.au](http://www.ato.gov.au).

<sup>158</sup> See section 35A of the SISA.

<sup>159</sup> See section 52(2)(e) of the SISA.

<sup>160</sup> See regulation 4.09 of the SISR.

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”.

~~343.329.~~ 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~~ material matters to the trustee directly.<sup>161</sup>

~~344.330.~~ 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.

~~345.331.~~ The frequency that a trustee should review the fund’s investment strategy in order to satisfy the requirements of ~~Regulation~~ 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

~~346.332.~~ The SISA<sup>162</sup> 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”~~ test is a conceptual test that, when satisfied, demonstrates that the SMSF has in fact been maintained solely for allowable purposes ~~(“exclusivity of purpose”)~~ 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 ATO provides guidance on their minimum expectation for audit evidence in respect of the listed provisions in Part B of the Audit Report~~<sup>163</sup>. The guidance for s62 SISA states, among other things: “The auditor ~~to separately state~~ should check that their procedures “included testing that the fund’s governing rules establish the fund solely for the provision of ~~retirement~~ benefits for fund members ~~(upon their retirement or turning 65 years old) and their dependents~~ dependants (in the case of ~~the~~ a member’s death before retirement<sup>2</sup>.”.

~~347.333.~~ 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:

- ~~A~~ accepting contributions;
- ~~A~~ acquiring and investing the SMSF’s assets;
- ~~A~~ administering the funds;
- ~~E~~ employing and using the SMSF’s assets; and

<sup>161</sup> See *Ryan Wealth Holdings Pty Ltd v Baumgartner* NSWSC [1502].

<sup>162</sup> See section 62 of the SISA.

<sup>163</sup> See ATO website for guidance on compliance engagement requirements at <https://www.ato.gov.au/super/self-managed-super-funds/smsf-auditors/auditing-an-smsf/compliance-audit/>

- ~~Paying~~paying benefits, including those benefits on or after retirement.

~~348.~~334. In assessing whether a SMSF has complied with the sole purpose test, the auditor may refer to the ATO's Ruling SMSFR 2008/2<sup>164</sup> 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~~. The ATO has reviewed ~~the~~ Ruling, SMSFR 2008/2 and issued a decision impact statement as a result, to further clarify their position as Regulator.<sup>165</sup>

~~349.~~335. 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<sup>166</sup> contains strict regulations in relation to collectables and personal use assets. ~~In-house assets~~IHA are discussed further in paragraphs ~~300~~348 to ~~302~~351, while collectables and personal use assets are discussed further in paragraphs ~~296~~343 to ~~299~~347.

~~350.~~336. Current day benefits are likely to fail the sole purpose test if the benefit:

- ~~Was~~was negotiated or sought-out by the trustees;
- ~~Has~~has influenced the decision making of the trustee~~s~~;
- ~~Has~~has been provided at a cost or financial detriment to the SMSF; and
- ~~Is~~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 ~~sections~~subsection 62(1).

~~351.~~337. Current day benefits are more likely to comply with the sole purpose test if:

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

~~352.~~338. 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:

<sup>164</sup> See ATO Ruling SMSFR 2008/2 *Self Managed Superannuation Funds: the application of the sole purpose test in section 62 of the Superannuation Industry (Supervision) Act 1993 to the provision of benefits other than retirement, employment termination or death benefits*.

<sup>165</sup> See *Aussiegolfa Pty Ltd (trustee/Trustee) v Federal Commissioner of Taxation* (VID 54 of 2018 VID 83 of 2018).

<sup>166</sup> See regulation 13.18AA of the SISR.

- ~~Transaction~~transactions not at arm's length;<sup>167</sup>
- ~~Loans~~loans or financial assistance to members or relatives;<sup>168</sup>
- ~~Acquisitions~~acquisitions from related parties;<sup>169</sup>
- ~~Charges~~charges over assets;<sup>170</sup>
- ~~Assignment~~assignment of, or charges over, member's benefits;<sup>171</sup>
- SMSF assets not held separately from the members' personal assets;<sup>172</sup>
- ~~Acquisition~~acquisition of "in-house" assets~~IHA~~ in excess of 5% per cent of the total market value of the SMSF assets;<sup>173</sup> and
- ~~Collectables~~collectables and personal use assets.<sup>174</sup>

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

### *Running a Business*

~~353.~~339. 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.<sup>175</sup> Although the operation of a business is not prohibited by the ~~SIS~~SISA, specific additional obligations need to be met by the fund to ensure on-going ~~SIS~~SISA compliance.

~~354.~~340. 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.

~~355.~~341. 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*

~~356.~~342. 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

<sup>167</sup> See section 109 of the SISA.

<sup>168</sup> See section 65 of the SISA.

<sup>169</sup> See section 66 of the SISA.

<sup>170</sup> See regulation 13.14 of the SISR.

<sup>171</sup> See regulations 13.12 and 13.13 of the SISR.

<sup>172</sup> See ~~section~~subsection 52B(2)(d) of the SISA and regulation 4.09A of the SISR.

<sup>173</sup> See ~~part~~Part 8 of the SISA.

<sup>174</sup> See regulation 13.18AA of the SISR.

<sup>175</sup> Also refer to [ATO Ruling](#) 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.*

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.<sup>176</sup> SISA 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

~~357.343.~~ 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~~ Personal Use Assets*

~~358.344.~~ 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<sup>177</sup> that are acquired by the fund on or after 1 July 2011 are subject to restrictions<sup>178</sup> contained in the regulation 13.18AA of the SISR including that:

- They must not be leased to any related party<sup>179</sup> 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<sup>180</sup> determined by a qualified independent valuer<sup>181</sup>; ~~and~~
- The auditor obtains sufficient appropriate audit evidence that trustees have complied with the restrictions on collectable and personal use assets of the fund.

~~359.345.~~ 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.<sup>182</sup> 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.

<sup>176</sup> See paragraph ~~347~~346 of this guidance statement.

<sup>177</sup> Collectables and personal use asset list contained in ~~Regulation~~regulation 13.18AA(1) of the SISR.

<sup>178</sup> 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.

<sup>179</sup> Related party is defined in ~~Section~~subsection 10(1) of the SISA.

<sup>180</sup> Market value is defined in ~~Section~~subsection 10(1) of the SISA.

<sup>181</sup> See the ATO's *Valuation guidelines for self-managed superannuation fund (web-based) funds*, available on the ATO's website: <http://www.ato.gov.au/Super/Self-managed-super-funds>

<sup>182</sup> See regulation 13.18AA(6) of the SISR.

~~360.~~<sup>346.</sup> 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~~,<sup>183</sup> IHA<sup>184</sup>, in which case the ~~in-house asset~~IHA limits will apply. Furthermore, the SISR prohibits the use of such investments by members and related parties of the fund.<sup>185</sup>

~~361.~~<sup>347.</sup> 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”~~

~~362.~~<sup>348.</sup> An ~~“in-house” asset~~IHA 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.<sup>186</sup> A related trust is a trust that a member or employer-sponsor controls.<sup>187</sup> There are a number of exceptions to the definition of ~~in-house assets~~IHA and transitional provisions included in Part 8 of the SISA.<sup>188</sup> The auditor needs to be familiar with these exceptions when considering ~~in-house asset~~IHA requirements.

~~363.~~<sup>349.</sup> The SISA has strict limits on the level of ~~“in-house assets”~~IHA permitted to be held by the SMSF. The market value of the ~~in-house asset~~IHA must not exceed ~~5% per cent~~ of the total market value of the SMSF’s assets at the time of acquisition<sup>189</sup> and at year end.<sup>190</sup> Also, the trustees are prohibited from acquiring an ~~in-house asset~~IHA that would cause the total of all ~~in-house assets~~IHA to exceed this ~~5% per cent~~ ratio. The auditor examines the investments of the SMSF to identify potential ~~in-house assets~~IHA to ensure that the legislative limits are not exceeded, either when they were acquired or at year end.

~~364.~~<sup>350.</sup> 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~~IHA, or by concealing the related party connection. Such actions are prohibited under the SISA.<sup>191</sup>

~~365.~~<sup>351.</sup> If the level of IHA exceeds ~~5% per cent~~, the trustee is required to develop a written plan to reduce the level below ~~5% per cent~~ by the end of the following income year. Where a SMSF has IHA that are greater than the ~~5% per cent~~ 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*

~~366.~~<sup>352.</sup> Trustees and investment managers are prohibited, under the SISA,<sup>192</sup> from acquiring assets from a related party unless the assets are acquired at market value and are either:

- (a) listed securities;

<sup>183</sup> See guidance on “in-house” assets is provided in paragraphs 300 to 302 of this Guidance Statement.

<sup>184</sup> See guidance on in-house assets provided in paragraphs 348 to 351 of this Guidance Statement.

<sup>185</sup> See regulation 13.18AA(6) of the SISR.

<sup>186</sup> Defined in subsection 10(1) of the SISA. Also refer to ATO Ruling SMSFR 2009/4 ~~the~~The meaning of ‘asset’, ‘loan’, ‘investment in’, ‘lease’ and ‘lease arrangement’ in the definition of an ‘in-house asset’ in the SISA.

<sup>187</sup> Defined in subsection 10(1) of the SISA.

<sup>188</sup> See also regulations 13.22B, 13.22C and 13.22D of the SISR. ATO Ruling SMSFR 2009/1 *Business real property for the purposes of the SISA* is also relevant to the definition of business real property and the exceptions under S71(1) of the SISA.

<sup>189</sup> See section 83 of the SISA.

<sup>190</sup> See section 82 of the SISA.

<sup>191</sup> See section 85 of the SISA.

<sup>192</sup> See section 66 of the SISA.

- (b) business real property;
- (c) ~~in-house assets~~IHA within the ~~5% per cent~~ limit;
- (d) life insurance policies that are not acquired from a member or relative; or
- (e) assets which are ordinarily ~~in-house assets~~IHA but are exempted by the operation of ~~sections~~subsection 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% per cent~~ limit.

~~367-353.~~ Business real property<sup>193</sup> is land and buildings used wholly and exclusively for business purposes.<sup>194</sup> 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 example,~~ 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.

~~368-354.~~ Assets which would ordinarily be defined as ~~in-house assets~~IHA but which are exempt under the provisions of ~~sections~~subsection 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~~IHA, an investment in a widely held unit trust, and non-g geared unit trusts which meet the other requirements of the SISR.<sup>195</sup>

~~369-355.~~ 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*

~~370-356.~~ The SISA<sup>196</sup> 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;

<sup>193</sup> Defined in subsection 66(5) of the SISA. Refer to [ATO Ruling SMSFR 2010/1](#) ~~for the~~The application of subsection 66(1) of the SISA to the acquisition of an asset by a SMSF from a related party.

<sup>194</sup> See [ATO Ruling SMSFR 2009/1](#) ~~Business real property for the purposes of the SISA.~~

<sup>195</sup> See regulation 13.22A - 13.22D of the SISR

<sup>196</sup> See section 109 of the SISA.

- 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.

~~374.~~357. 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<sup>197</sup> 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*

~~372.~~358. The trustees are required<sup>198</sup> 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.

~~373.~~359. Where there has been a change in trustees, the auditor generally checks that the ownership documents for fund assets have been updated.

~~374.~~360. 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*

~~375.~~361. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives<sup>199</sup> 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

<sup>197</sup> See [section 109\(1\)\(b\)](#) of the SISA.

<sup>198</sup> See subsection 52B(2)(d) of the SISA, and Regulation 4.09A of the SISR.

<sup>199</sup> See section 65 of the SISA. Also refer to [ATO Ruling 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*.

funds may be considered to be an early access to benefits without meeting a condition of release.<sup>200</sup>

~~376.~~362. 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.

~~377.~~363. 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*

~~378.~~364. SMSFs are not permitted to borrow money,<sup>201</sup> with the exceptions<sup>202</sup> 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% per cent 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% per cent 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.<sup>203</sup>

~~379.~~365. 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.

~~380.~~366. 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.

~~381.~~367. 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.

<sup>200</sup> 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.

<sup>201</sup> See ~~section~~subsection 67(1) of the SISA. Also refer to [ATO Ruling SMSFR 2009/2](#) *The meaning of "borrow money" or "maintain an existing borrowing of money" for the purposes of section 67 of the SISA*.

<sup>202</sup> See sections 67 and 67(A) of the SISA.

<sup>203</sup> See ATO Ruling SMSFR 2012/1 [Self-Managed Superannuation Funds: limited](#)Limited recourse borrowing arrangements – application of key concepts ~~(SMSFR 2012/1)~~.

~~382.368.~~ Where the SMSF has derivative instruments ~~–with~~ 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.

~~383.369.~~ 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 ~~/or~~ 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.

~~384.370.~~ 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.

~~385.371.~~ For limited recourse borrowing arrangements<sup>204</sup> entered into by superannuation funds on or after 7 July 2010, or previous ~~sections~~~~subsection~~ 67(4A) of the SISA debt arrangements that have been refinanced after 7 July 2010:

- (a) the asset within the arrangement can only be replaced by a different asset<sup>205</sup> in very limited circumstances specified in the law;
- (b) superannuation fund trustees cannot borrow to improve an asset<sup>206</sup> (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.<sup>207</sup>

~~386.372.~~ 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~~;~~

<sup>204</sup> See sections 67A and 67B of the SISA.

<sup>205</sup> Table 2 in ATO ~~ruling~~~~Ruling~~ SMSFR 2012/1 provides illustrative guidance as to whether a change to a single acquirable asset results in a different asset.

<sup>206</sup> Table 1 in ATO ~~ruling~~~~Ruling~~ SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.

<sup>207</sup> See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.

- 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,<sup>208</sup> 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;
  - the trust asset is a single asset or identical assets that have the same value, e.g. for example ordinary shares; and
  - there is no charge over the asset except per the limited recourse arrangement.<sup>209</sup>

#### *Charges Over Assets*

**387.373.** SMSFs are not permitted to use the assets of the SMSF to secure a debt facility<sup>210</sup> 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.

<sup>208</sup> See subsection 67A(1) of the SISA.

<sup>209</sup> See ATO [Ruling](#) 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.

<sup>210</sup> 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.

**388:374.** 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.

**389:375.** 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.

**390:376.** 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*

**391:377.** The trustees are required to value fund assets at market value.<sup>211</sup> See paragraphs [463:192](#) to [471:203](#) for requirements and explanatory guidance on asset valuations.

### **Benefit Restrictions**

**392:378.** 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.<sup>212</sup>

#### *Minimum Benefits*

**393:379.** The trustees are required<sup>213</sup> to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred.

#### *Payment of Benefits*

**394:380.** 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<sup>214</sup> 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,<sup>215</sup> severe financial hardship and compassionate grounds which are assessed by the ATO in accordance with regulatory requirements.<sup>216</sup>

<sup>211</sup> See regulation 8.02B of the SISR.

<sup>212</sup> More information is available on the ATO's website at [www.ato.gov.au](http://www.ato.gov.au) (search under [Paying benefits](#) 'paying benefits').

<sup>213</sup> See regulation 5.08 of the SISR.

<sup>214</sup> Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.

<sup>215</sup> 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.

<sup>216</sup> Regulation 6.19A SISR.

**395.381.** For pension payments, the auditor ensures that any payments meet the minimum and maximum,<sup>217</sup> 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<sup>218</sup> which is calculated by applying a percentage rate, dependent on the member's age,<sup>219</sup> 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.

**396.382.** Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year<sup>220</sup> and the income from assets that support the pension will not be tax exempt for the year.<sup>221</sup> The ATO guidelines [Self-Managed superannuation funds for SMSFs Funds – starting and stopping a pension /superannuation income stream \(pension\)](#)<sup>222</sup> 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.

**397.383.** 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 is 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 However, the trustee must however is required to consider the terms of the fund's trust deed along, together with any member nominations that are on file, when determining how the death benefit is to be paid.

**398.384.** 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.

**399.385.** 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.

<sup>217</sup> Maximum payments exist for [TRIS transition to retirement income streams \(TRIS\)s](#).

<sup>218</sup> See [sub-regulation 1.06\(9A\)\(a\)](#) of the SISR.

<sup>219</sup> See schedule 7 of the SISR.

<sup>220</sup> ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and, consequently, when a superannuation income stream is payable.

<sup>221</sup> See sub-regulation 1.06(9A) and Schedule 7 of SISR.

<sup>222</sup> See ATO's guidelines [self-managed superannuation funds – for SMSFs – Funds: starting and stopping a superannuation income stream \(pension\)](#) which can be found on the ATO's website [www.ato.gov.au/super/self-managed-super-funds](http://www.ato.gov.au/super/self-managed-super-funds) (webpage only).

400.386. 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.

401.387. 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.

402.388. 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 that 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.

403.389. 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~~ circumstances where a SMSF has paid a death benefit ~~in~~ during the ~~year~~ being audited period under review, 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.

404.390. 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.

405.391. 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*

406.392. 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,<sup>223</sup> or a charge over, or in relation to, a member's benefits.<sup>224</sup> Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

### **Contribution Restrictions**

407.393. 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

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<sup>223</sup> See regulation 13.12 of the SISR.

<sup>224</sup> See regulation 13.13 of the SISR.

members of the fund or all of the members in general.<sup>225</sup> 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.

~~408.394.~~ The auditor tests that the SMSF has accepted contributions in accordance with the SISR,<sup>226</sup> which are either:

- (a) mandated employer contributions received irrespective of the member's age, such as ~~SG contributions~~SGCs, 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 (~~applying a 'work test'~~) during the financial year in which the contribution is made;<sup>227</sup>
  - (iii) the member is over 65 ~~years~~ but is under ~~age-75 years~~ 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, ~~this is a one-off opportunity (can only be used once); or~~
  - ~~(iv) — the member is under age 67; or;~~
  - ~~(v)(iv)~~ 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; ~~or~~
- ~~(e) downsizer contributions if the member is 65 years or older and eligible.~~

~~409.395.~~ The auditor also tests that contributions are:

- (a) within contribution caps specified in the SISR and the ITAA<sup>228</sup>, 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~~NCCs cap; or

<sup>225</sup> See *ATO Tax Ruling* TR 2010/1 *Income tax: Superannuation contributions*.

<sup>226</sup> See regulation 7.04 of the SISR.

<sup>227</sup> 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.

<sup>228</sup> ITAA 1997 section 292-85(2).

- (ii) if the member is 65 years but less than 75 years on 1 July of the financial year – the ~~non-concessional contributions~~ NCCs cap; and
- (b) for a member for whom a tax file number (TFN) has been supplied.

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

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

Total <del>superannuations</del> <u>super</u> balance at start of year	Maximum NCCs using bring-forward
< \$1.4 <u>m</u> 4 million	3 x the single year
\$1.4 <u>m</u> 4 million - \$1.5 <u>m</u> 5 million	2 x the single year
\$1.5 <u>m</u> 5 million - \$1.6 <u>m</u> 6 million	1 x the single year
+ \$1.6 <u>m</u> 6 million	\$0

**412.398.** If a member has a TSB below \$1.4m4 million 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.

**413.399.** In verifying the appropriateness of contributions received, the auditor considers factors including:

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

**414.400.** 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)~~ (see paragraphs 242 to 245 of this Guidance Statement).

#### *Returning/refunding contributions*

**415.401.** There are very limited circumstances where a SMSF trustee can return a contribution to a member or employer, such as ~~follows~~:

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

(b) — A member ~~contributions~~contribution received for whom the fund does not have a TFN ~~must, which has to~~ be returned to the contributor within 30 days of ~~becoming aware~~ that the amount being received<sup>229</sup>. ~~However, the is inconsistent with the regulations~~<sup>230</sup>. The fund does not have to return such contributions if the member's TFN is ~~quoted~~provided for superannuation purposes, within 30 days of the amount being received by the trustee of the fund.

(e)(b) Contributions ~~are~~ returned in accordance with the “law of ~~restitution~~”restitution<sup>231</sup>. The limited examples of the operation of the law of restitution include:

- (i) an amount ~~is~~ paid to a superannuation fund by mistake ~~—it~~and was intended for a different purpose; ~~and~~
- (ii) ~~-an amount is paid to a~~ superfundsuperannuation fund that is greater than intended, for example, because of a clerical, transcription or arithmetic error.

416.402. A SMSF ~~cannot~~is not able to 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<sup>232</sup>

417.403. Audit procedures ~~on returning or refunding of contributions~~ may include checking cash movements and validating receipts and payments along with substantiation of contributions received from employment arrangements.—

418.404. 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*

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

420.406. 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.

421.407. 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

<sup>229</sup> ~~SISR 7.04(4)(a)~~

<sup>230</sup> See sub-regulation 7.04(4)(a) of the SISR.

<sup>231</sup> See ATO ID 2010/104 *Excess contributions tax: restitution of a 'mistaken' contribution*, which includes case ~~citation~~citations.

<sup>232</sup> -The “fund-capped ~~contributions~~”contributions’ limit (former ~~regulation~~ 7.04(3) of the ~~SIS Regs~~SISR) has been repealed for non-concessional contributions from 1-July 2017.

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

#### *Downsizer contribution*

**422.408.** 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).~~<sup>233</sup> The form ensures the contribution is not counted ~~to~~<sup>towards</sup> the member's contribution caps ~~as well as enabling the~~, <sup>enables a</sup> member to make a contribution without satisfying the work test, and permits ~~members a~~ <sup>a member</sup> with ~~greater than~~ a TSB <sup>in excess</sup> of \$1.6m ~~million~~, to contribute up to \$300,000 ~~to~~<sup>into</sup> super.

**423.409.** Where ~~a~~ downsizer contributions are accepted, the auditor assesses whether:

- (a) ~~The~~<sup>the</sup> fund's trust deed permits downsizer contributions, ~~or do not expressly prohibit the acceptance;~~
- (b) ~~There~~<sup>there</sup> is sufficient evidence to confirm the member's eligibility to make the contribution; <sup>and</sup>
- (c) ~~The~~<sup>the</sup> member has not utilised the downsizer contribution opportunity previously.

**424.410.** Key risk areas <sup>relating to downsizer contributions</sup> may include:

- (a) ~~The~~<sup>the</sup> 10 year holding period. ~~One - one~~ member of the couple must have owned the property for at least 10 years;
- (b) ~~The~~<sup>the</sup> property is at least partially exempt from CGT under the main residence exemption; and
- (c) ~~The~~<sup>the</sup> sale contract is dated <sup>on or</sup> after 1 July 2018.

#### *Use of Reserves*

**425.411.** Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the ~~trustee~~<sup>trustee</sup> is appropriate for the fund within the requirements of the SISA<sup>234</sup> and SISR, in accordance with the fund's trust deed and investment strategy, and ATO guidance provided in respect of the use of reserves.<sup>235</sup>

**426.412.** If the reserve was established prior to 1 July 2017, the ATO has ~~stated~~<sup>indicated</sup> 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.<sup>236</sup> 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; <sup>a</sup> higher allocation to the retirement phase; <sup>and</sup> access to the segregated method to calculate <sup>the</sup> ECPI percentage.

**427.413.** Funds maintaining investment reserves should consider the ongoing appropriateness of these <sup>reserves</sup>, as they are likely to attract ~~Regulator~~<sup>regulator</sup> 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.<sup>237</sup>

<sup>233</sup> See ATO form *Downsizer contribution into superannuation* (NAT 75073).

<sup>234</sup> Section 115 of the SISA.

<sup>235</sup> SMSF Regulator's Bulletin *SMSFRB* 2018/1 *The use of reserves by self-managed superannuation funds* ~~published 15/3/18.~~ *SMSFRB* 2018/1.

<sup>236</sup> SMSFRB 2018/1.

<sup>237</sup> See sub-regulation 5.03(1) of the SISR.

~~428.414.~~ 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.

~~429.415.~~ Allocations from other reserves will be classified as concessional contributions unless the allocation to member's accounts is less than 5% per cent of the member's opening balance in the year of the transfer and all members receive an allocation.

## Investment Returns

~~430.416.~~ 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.<sup>238</sup> The allocation should take into consideration all the members of the fund and the specific member accounts of each member of the fund.

## Solvency

~~431.417.~~ 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)~~.

~~432.418.~~ Under the SISR,<sup>239</sup> 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 of the ACR)

~~433.419.~~ 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.

~~434.420.~~ 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.

~~435.421.~~ From 1 July 2019, a disclaimer ~~making it clear~~ has been included to clarify that, when an auditor provides information about a fund or trustee ~~at~~ in Section G of the ACR, they are consenting to the disclosure of their identity to the SMSF trustee. If an auditor does not wish for their identity to be disclosed, they would instead make an anonymous disclosure via the ATO website.

<sup>238</sup> See sub-regulation 5.03(2) of the SISR.

<sup>239</sup> See regulation 9.04 of the SISR.

## Other Compliance Engagement Considerations

### *Service Organisations*

**436.422.** If a service organisation is used by the SMSF, the auditor cannot merely rely on the type 2 report [on controls](#) 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 [SISA](#). To address the other compliance requirements, the auditor requests the service organisation to confirm that the compliance obligations have been met, for example, [confirmation that](#):

- (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.

**437.423.** 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*

**438.424.** 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

**439.425.** 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;<sup>240</sup>
- (c) the ATO, in an ACR, under SISA sections 129 or 130; and
- (d) the trustees in the auditor's compliance report.

**440.426.** 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.

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<sup>240</sup> 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). [See www.ato.gov.au/Forms](http://www.ato.gov.au/Forms).

~~441.~~~~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;<sup>241</sup> 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.<sup>242</sup>

~~442.~~~~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.

~~443.~~~~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.

~~444.~~~~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.

~~445.~~~~431.~~ The circumstances which may result in a modification to the auditor's compliance report are where:

- (a) a limitation ~~on the~~ 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.

~~446.~~~~432.~~ A qualified opinion is expressed as being “except ~~for~~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.

<sup>241</sup> The ACR instructions (NAT 11299) and [the](#) ACR (NAT 11239) are approved forms and can be obtained through the ATO's website at [www.ato.gov.au/Forms](http://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 ACR breaches~~ (contraventions) appropriately to the ATO. See [www.ato.gov.au/eSAT](http://www.ato.gov.au/eSAT) ~~https://www.ato.gov.au/Calculators-and-tools/Electronic-super-audit-tool/?=redirected\_esat~~ for further details.

<sup>242</sup> See ~~“Solvency”~~ “Solvency” at ~~para 416~~ paragraphs 417-418 of [this Guidance Statement](#).

## Appendix 1

(Ref: Para. [6664](#))

### 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.<sup>243</sup>

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our [audit engagement](#) 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.

<sup>243</sup> 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.

## Financial Audit

A financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. A financial audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by the 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~~trustees.

## Compliance Engagement

A compliance engagement involves performing ~~audit~~assurance 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.<sup>244</sup> 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

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<sup>244</sup> If the SMSF is a reporting entity, or, from 1 July ~~2020~~2021 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."

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
- Making available to us all the books of the Fund, including any registers and general documents, minutes and other relevant papers of all ~~Trustee~~<sup>trustee</sup> 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~~<sup>trustees</sup> 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 (including Independence Standards)*, 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 ~~ATO~~<sup>Australian Taxation Office (ATO)</sup> 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.<sup>245</sup>

*-[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~~<sup>However, our</sup> 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~~<sup>compliance engagement</sup> will be

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<sup>245</sup> The auditor should retain an original hard copy in the working papers.

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]<sup>246</sup>*

As a practitioner/firm participating in a scheme approved under Professional [Services Standards](#) 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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<sup>246</sup> 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](#) [APESB](#) (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 Standards](#) Legislation to advise the client that the member's liability may be limited under the scheme. [A new Professional Standards Scheme commenced across Australia on 23 December 2019, replacing the previous Scheme, which concluded on 22 December 2019.](#)

## Appendix 2

(Ref: Para. ~~135~~139)

### 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.<sup>247</sup> 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

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

<sup>247</sup> If the SMSF is a reporting entity then it will be required to prepare a ~~general purpose financial report~~GPFR 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/inform](#) the [ATO](#) Commissioner in writing, and must resign as a trustee [of the SMSF](#) as soon as [possible/practicable](#).

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, [it](#) 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~~[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.

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~~ We have ensured the assets of the Fund have always been invested in line with this strategy. ~~As trustee we~~ 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 report 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;
- 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~~authorised signatories on bank and investment accounts are regularly reviewed and considered appropriate; and
- ~~Tangible~~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.

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~~report in order to ensure the financial ~~statements are~~report is 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.]

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]

## Appendix 3

(Ref: Para. [7674](#))

## 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
<b>A</b>	<b>ESTABLISHMENT AND EXECUTION</b>
<b>A.1</b>	Is the date of establishment of the SMSF recorded?
<b>A.2</b>	Has the trust deed been: <ul style="list-style-type: none"> <li>• Properly executed?</li> <li>• Signed by all the members who are individual trustees?</li> <li>• Witnessed?</li> <li>• Dated?</li> <li>• Stamped (if required)?</li> </ul>
<b>A.3</b>	Do the rules incorporate the SISA, SISR and applicable taxation rules?
<b>A.4</b>	Does the deed outline the core and ancillary purposes of the SMSF?
<b>A.5</b>	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?
<b>A.6</b>	Does the deed have a clause which deems the appropriate legislation into or out of the deed to allow the SMSF to remain complying?
<b>B</b>	<b>AMENDMENTS TO THE DEED</b>
<b>B.1</b>	Does the deed allow amendments?
<b>B.2</b>	Has the trust deed been amended since the last audit? If so: <ul style="list-style-type: none"> <li>• Has the deed amendment been properly executed?</li> <li>• Is confirmation of the deed's compliance with SISA and SISR required from the solicitor or other party involved in the amendment?</li> <li>• Is the amendment signed off by the current trustees?</li> <li>• Could the amendments impact the audit?</li> </ul>
<b>C</b>	<b>TRUSTEE AND MEMBERSHIP</b>
<b>C.1</b>	Does the trust deed specify who may be a trustee? Either: <ul style="list-style-type: none"> <li>• Two or more individual trustees; or</li> <li>• A trustee company.</li> </ul>
<b>C.2</b>	Does the deed specifically identify the trustee as either individuals or a corporate entity?
<b>C.3</b>	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 <ul style="list-style-type: none"> <li>• A non-working spouse?</li> <li>• A retired person?</li> <li>• A child?</li> </ul>
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? <ul style="list-style-type: none"> <li>• No member of the SMSF is an employee of another member, unless related.</li> <li>• No trustee receives remuneration for their services to the SMSF in their capacity as trustee.</li> </ul>
C.8	Does the trust deed contain the trustee covenants in s.52B of the SISA?
<b>D</b>	<b>AUDIT AND FINANCIAL REPORTS</b>
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 <del>2020</del> 2021 does the deed specify <u>that</u> the financial <del>statements are report is</del> to be prepared in accordance with the AAS? If so, the fund is required to prepare <del>General purpose financial statements</del> GPFR.
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?
<b>E</b>	<b>CONTRIBUTIONS</b>
E.1	Does the deed allow: <ul style="list-style-type: none"> <li>• Concessional contributions, including: <ul style="list-style-type: none"> <li>- Employer contributions, including contributions made pursuant to a salary sacrifice agreement?</li> <li>- Member contributions for which a tax deduction is claimed?</li> </ul> </li> <li>• Non-concessional contributions, (NCCs), including: <ul style="list-style-type: none"> <li>- Member contributions for which no tax deduction is claimed?</li> <li>- Eligible spouse contributions?</li> </ul> </li> <li>• Downsizer contribution</li> <li>• Contributions in respect of minors?</li> <li>• Rollovers and transfers in?</li> <li>• Government co-contributions?</li> <li>• Contribution splitting to a spouse?</li> <li>• Contributions by members who are under 65 and not working?</li> <li>• Contributions by members who are working part-time and are over 65 and under 75?</li> <li>• Mandated contributions to be accepted at any age?</li> <li>• Contribution splitting arrangements pursuant to family law matters?</li> <li>• Unused concessional cap carry forward – “catch-up <del>contributions</del> contributions”</li> </ul>
E.2	Does the deed allow for <i>in-specie</i> 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 preservation rules and conditions of release?
<b>F</b>	<b>BENEFIT PAYMENTS</b>
F.1	Does the SMSF require compulsory cashing of the members balance at a specific age? <p>* 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.</p>
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
<u>F.3</u>	<u>Does the deed provide for members to make death benefit nominations?</u>

Ref	Questions to be addressed in examining the trust deed
<b>F.34</b>	<del>Does the deed provide for members to make death benefit nominations</del> Does the deed provide authority between death benefit nominations and reversionary pensions?
<b>F.45</b>	Does the deed include specific provisions relating to the payment of death benefits?
<b>G</b>	<b>PENSIONS</b>
<b>G.1</b>	Does the deed expressly allow for payment of pensions by the SMSF, including*: <ul style="list-style-type: none"> <li>Account based pensions.</li> <li>TRIS, including the auto conversion to a retirement phase TRIS following a nil cashing restriction trigger event.</li> <li>Reversionary beneficiaries to be nominated.</li> <li>Allocated pensions.</li> <li>Term allocated or market linked or growth pensions.</li> <li>Non-complying lifetime or fixed term pensions.</li> </ul> <p>* This list includes a number of pensions which may no longer be permitted but, if already established, may continue being paid.</p>
<b>G.2</b>	Does the deed allow for commutation of a pension?
<b>G.3</b>	Does the deed allow for the segregation of assets to meet pension requirements?
<b>G.4</b>	Does the deed make reference to nominated beneficiaries?
<b>H</b>	<b>RESERVES (If applicable)</b>
<b>H.1</b>	Does the deed provide rules in relation to the establishment, maintenance and operation of SMSF Reserves?
<b>H.2</b>	Does the deed require different or parallel investment strategies for each reserve account?
<b>I</b>	<b>INVESTMENTS</b>
<b>I.1</b>	Does the deed provide powers to the trustees to invest the assets of the SMSF?
<b>I.2</b>	Does the deed specify specific assets/asset classes in which the SMSF may invest?
<b>I.3</b>	Does the deed prevent investments in, or loans to, related parties?
<b>I.4</b>	Does the deed require an investment strategy to be formulated, regularly reviewed, and given effect?
<b>I.5</b>	Does the deed require the investment strategy to consider if insurance is relevant to the members of the fund?
<b>J</b>	<b>BORROWINGS</b>
<b>J.1</b>	Does the deed prohibit borrowings?
<b>J.2</b>	Does the deed permit borrowing in specific circumstances, including: <ul style="list-style-type: none"> <li>Temporary borrowings which are required for the payment of member benefits, short term settlement of securities or superannuation contributions surcharges (no longer levied)?</li> <li>Borrowings for limited recourse borrowing arrangements?</li> </ul>
<b>K</b>	<b>WINDING-UP</b>
<b>K.1</b>	Does the deed provide for the winding-up of the SMSF?

## Appendix 4

(Ref: Para. 8479)

## 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<sup>248</sup>; 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<sup>248</sup> to ensure it covers all relevant provisions<sup>248</sup>.*

Ref	Audit Procedure
<b>A</b>	<b>ENGAGEMENT ACCEPTANCE</b>
<b>A.1</b>	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit, including: <ul style="list-style-type: none"> <li>• Clearance from previous auditor on new engagements.</li> <li>• The firm has the appropriate resources and expertise to complete the engagement in the required time.</li> <li>• Confirmation of independence of the engagement partner and each audit team member.</li> </ul>
<b>A.2</b>	Confirm that an engagement letter, that is appropriately scoped to cover this audit, has been issued and <del>will be</del> signed by the trustee prior to the completion of the audit.
<b>A.3</b>	A client acceptance or retention assessment has been undertaken.
<b>B</b>	<b>AUDIT PLANNING</b>
<b>B.1</b>	Obtain a copy of the following documents before commencing the audit: <ul style="list-style-type: none"> <li>• A signed copy of the Fund's governing rules.</li> <li>• Signed audited financial reports for the prior year, including the signed prior year's auditor's report.</li> <li>• Minutes/resolutions of trustee meetings.</li> <li>• Copy of the fund's investment strategy.</li> </ul>
<b>B.2</b>	Prepare an audit strategy and audit plan for this engagement addressing, as a minimum, the following matters: <ul style="list-style-type: none"> <li>• Client profile, audit and reporting arrangements.</li> <li>• Audit approach <ul style="list-style-type: none"> <li>- Nature: <ul style="list-style-type: none"> <li>○ Controls testing, including use of an auditor's report available for key service organisations.</li> <li>○ Substantive testing – inspection, observation, enquiry, confirmation, recalculation, re-performance and analytical review.</li> </ul> </li> <li>- Timing.</li> <li>- Extent – fully substantive, sampling, analytical review or representations.</li> <li>- Resources, including extent of direction and supervision.</li> </ul> </li> </ul> <p>Consider interviewing the trustees and/or their advisors, prior to and during the development of the audit plan.</p>

<sup>248</sup> Auditor guidance and information is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors/> for use in conducting the compliance engagement, including the ATO's electronic superannuation audit tool (eSAT), for use in conducting the compliance engagement is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors/>.

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Ref	Audit Procedure
B.3	<p>Complete a risk assessment and determine preliminary materiality levels, covering:</p> <ul style="list-style-type: none"> <li>• Risk assessment <ul style="list-style-type: none"> <li>- Current period events.</li> <li>- Fraud risks.</li> <li>- Control environment.</li> <li>- Computer/IT environment.</li> <li>- Materiality.</li> </ul> </li> </ul>
B.4	<p><u>Regulatory matters</u></p> <ul style="list-style-type: none"> <li>• Before commencing the audit, confirm that the SMSF is an ATO regulated <a href="#">self-managed superannuation fund</a> SMSF on Super Look Up: <a href="https://superfundlookup.gov.au/">https://superfundlookup.gov.au/</a></li> <li>• Place copy <a href="#">of the confirmation</a> on <a href="#">the</a> audit file.</li> </ul>
C	<b>FINANCIAL REPORT AND DISCLOSURE</b>
C.1	<p><u>Clerical accuracy and note references</u></p> <p>Check that:</p> <ul style="list-style-type: none"> <li>• The financial report includes an operating statement and statement of financial position, or their equivalent, and notes to the financial statements.</li> <li>• The table of contents or index agrees to the financial report, including the page numbers and content.</li> <li>• The footnotes refer to the notes to the financial statements and do not mention compilation reports or “<del>unaudited</del>” <a href="#">unaudited</a> information.</li> <li>• The audit report is situated appropriately in the financial report so as not to suggest that members’ statements or other information have been audited.</li> <li>• Prior period comparatives agree to those from the prior year signed financial report.</li> <li>• Additions in the financial report are correct.</li> <li>• The notes to the financial statements cross-reference correctly to and from the operating statement and statement of financial position.</li> </ul>
C.2	<p><u>Opening Balances - new engagements</u></p> <ul style="list-style-type: none"> <li>• Review the most recent audited financial report, and the predecessor auditor’s report for any information relevant to opening balances.</li> <li>• Determine whether the opening balances reflect the application of the described accounting policies.</li> <li>• 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: <ul style="list-style-type: none"> <li>- Consider reviewing the previous auditor’s audit work papers to obtain evidence regarding opening balances.</li> <li>- Evaluate whether audit procedures in the current period provide evidence in relation to opening balances.</li> <li>- Consider performing specific audit procedures to obtain evidence regarding opening balances.</li> </ul> </li> <li>• Consider the impact of the prior period’s modification (if applicable) to the opinion on the current period’s financial report.</li> <li>• 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.</li> </ul>
C.3	<p><u>Accounting policies</u></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Determine whether the accounting policies in relation to assets, contributions, member entitlements and reserves meet the requirements of the SISA and SISR.</li> <li>• 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.</li> <li>• <del>New funds, and funds where the trust deed has been amended, from 1 July 2020</del> <a href="#">2021</a> must be reviewed to ensure the financial <del>statements are</del> <a href="#">report is</a> not required to be prepared in accordance with AAS. <del>If there is which would require 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</del> <a href="#">GPFR</a> to be prepared.</li> </ul>

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Ref	Audit Procedure
<b>D</b>	<b>UNDERLYING ACCOUNTING RECORDS</b>
<b>D.1</b>	Obtain a copy of the SMSF's general ledger and agree the general ledger to the financial report and note any discrepancies.
<b>D.2</b>	Review the general ledger and identify material journal entries and other adjustments and review these to ensure that they are reasonable and consistent with the financial report.
<b>E</b>	<b>CASH</b>
<b>E.1</b>	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.
<b>E.2</b>	Review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
<b>E.3</b>	Test large and unusual payments and receipts to ensure these are <i>bona fide</i> and correctly recorded and authorised.
<b>E.4</b>	Review bank reconciliation at year end: <ul style="list-style-type: none"> <li>Follow up and investigate large, unusual or recurring reconciling items.</li> <li>Follow up uncleared deposits and unpresented cheques ensuring correct cut off.</li> <li>Trace unpresented cheques to bank statement subsequent to year end.</li> </ul>
<b>E.5</b>	Where bank accounts are significant to the audit you should gain sufficient appropriate audit evidence, that may include: <ul style="list-style-type: none"> <li>Confirming the bank balance by way of a bank confirmation.</li> <li><del>Obtain</del>Obtaining 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.</li> <li>Sighting original bank statements and subsequent redemptions for term deposits.</li> <li>Seeking explanations for any material differences.</li> <li>Checking for any debit balances, undisclosed liabilities and security for borrowings.</li> <li><del>Review</del>Reviewing substantial entries and <del>trace</del>tracing back to source (contributions, asset transactions, benefit payments).</li> </ul>
<b>E.6</b>	Where the fund had undeposited cheques recorded as “cash on <del>hand</del> ” <del>hand</del> 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.
<b>F</b>	<b>INVESTMENTS</b>
<b>F.1</b>	<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.
<b>F.2</b>	<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	<p><u>Investor Directed Portfolio Services (IDPS) (WRAP accounts)</u></p> <ul style="list-style-type: none"> <li>Obtain the relevant auditor's report issued in accordance with ASAE 3402.</li> <li>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.</li> <li>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).</li> <li>Check that there is no double counting of assets such as the SMSF bank account or distributions receivable.</li> <li>Where Obtain where data has been transmitted via the use of data feeds, an ASAE 3402 Type 2 Audit Report Assurance report in respect of the process and controls should be obtained.</li> <li>operating effectiveness.</li> </ul>
F.4	<p><u>Fixed Interest Securities (including term deposits)</u></p> <ul style="list-style-type: none"> <li>Complete the following for each fixed interest security, including debentures and bonds, held by the SMSF at the end of the period: <ul style="list-style-type: none"> <li>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.</li> <li>Agree the value of the fixed interest securities at period end.</li> <li>For bonds, either confirm the net market value at period end with the originator of the security or with published market prices.</li> <li>For unlisted non-transferable debentures, agree the net market value with the face value.</li> </ul> </li> <li>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.</li> <li>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).</li> </ul>
F.5	<p><u>Property</u></p> <ul style="list-style-type: none"> <li>Complete property searches for all real estate investments owned by the SMSF.</li> <li>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.</li> <li>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 this checklist of illustrative audit procedures.</li> <li>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.</li> <li>Review the method used to value the property, including if the trustees have relied on an independent market appraisal or valuation, and obtain a copy of this the valuation and confirm that: <ul style="list-style-type: none"> <li>The value is correctly reflected in the financial report.</li> <li>The valuation/appraisal refers to the correct property.</li> <li>The valuation was based on reasonable assumptions and is current.</li> <li>The valuation does not take into account redemption costs, other than any GST payable on sale which should be removed from the value.</li> <li>If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal.</li> <li>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).</li> <li>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.</li> </ul> </li> <li>Where the property includes "buildings and other fixtures" 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.</li> </ul>

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Ref	Audit Procedure
<b>-F.6</b>	<p><u>Listed Securities</u></p> <p>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.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Agree the number of securities held at period end to the share registry or other appropriate sources.</li> <li>• Confirm the closing market price of the securities at the period end against an independent source.</li> <li>• 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).</li> <li>• 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.</li> </ul>
<b>F.7</b>	<p><u>Widely Held Unlisted Unit Trusts and Managed Funds</u></p> <p>These are arm's length, professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices.</p> <ul style="list-style-type: none"> <li>• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: <ul style="list-style-type: none"> <li>- The number of securities held at period end.</li> <li>- 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.</li> <li>- 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).</li> <li>- Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported.</li> </ul> </li> <li>• 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.</li> </ul>
<b>F.8</b>	<p><u>Unlisted Closely Held Unit Trusts</u></p> <p>These can be related trusts that may require additional audit procedures to confirm ownership, value and compliance with the SISR and SISA.</p> <ul style="list-style-type: none"> <li>• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and <u>agree</u>: <ul style="list-style-type: none"> <li>- <del>Agree the</del> <u>The</u> number of units held at period end, <del>and that,</del></li> <li>- <del>That</del> 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</li> </ul> </li> <li>• 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: <ul style="list-style-type: none"> <li>- Obtaining documentary evidence to support the valuation.</li> <li>- 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.</li> <li>- 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).</li> <li>- 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.</li> </ul> </li> </ul> <p>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.</p>

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

Ref	Audit Procedure
F.9	<p><u>Pooled Superannuation Trusts and Life Insurance Policies</u></p> <ul style="list-style-type: none"> <li>• Sight original statements issued by the product provider, or obtain a confirmation directly from the product provider at period end.</li> <li>• Confirm that the investment is in the correct name.</li> <li>• Confirm the number of units and value of the investment at period end.</li> <li>• 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).</li> </ul>
F.10	<p><u>Assets subject to Limited Recourse Borrowing/ Arrangements</u></p> <ul style="list-style-type: none"> <li>• 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: <ul style="list-style-type: none"> <li>- 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.</li> <li>- Confirm that the asset is held in trust for the SMSF</li> <li>- Confirm the deposit for the acquisition was paid from the SMSF cash balance.</li> <li>- Confirm the borrowing has only been used to maintain and repair the asset (not improve the asset) or applied to refinance the borrowing.</li> <li>- If the asset was replaced, confirm the following: <ul style="list-style-type: none"> <li>○ A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or</li> <li>○ A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or</li> <li>○ Is as a result of a corporate action</li> </ul> </li> <li>- Confirm that the SMSF has an option to acquire the legal ownership of the asset on payment of the final instalment.</li> <li>- Confirm that the lender's rights are limited in recourse against the fund trustee, to that asset.</li> <li>- 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.</li> <li>- For non-bank loan arrangements, review the loan agreement and check whether the terms are in accordance with the <del>“safe harbour”</del> <a href="#">guide detailed in PCG 2016/5</a> <del>“safe-harbour”</del> <a href="#">“safe-harbour” guidelines detailed in ATO Practical Compliance Guidelines PCG 2016/5</a> <a href="#">Income tax – arm’s-length terms for limited recourse borrowing arrangements established by self-managed superannuation funds, including annual interest rate updates published by the ATO</a>, and that the terms have been honoured. The safe-harbour terms provide a standard to demonstrate that the arrangement is <del>“at ‘arm’s length’</del> <a href="#">“at ‘arm’s length’</a> and thereby not subject to the <a href="#">non-arm’s length income (NALI)</a> level of tax.</li> </ul> </li> <li>• 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 <del>disclosure</del> <a href="#">disclosures</a> to ensure it appropriately reflects the position of the arrangement.</li> </ul>

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

Ref	Audit Procedure
<b>F.11</b>	<p><u>Collectables and Personal Use Assets</u></p> <ul style="list-style-type: none"> <li>If the asset is a type that does not have any form of title, obtain evidence to confirm existence and ownership including: <ul style="list-style-type: none"> <li>Minutes or resolution relating to the acquisition of the asset.</li> <li>Invoice and evidence of payment from the SMSF for the purchase of the asset.</li> <li>Sighting the asset.</li> </ul> </li> <li>For all collectibles and <u>Personal Use Assets</u><del>personal use assets</del>, obtain evidence of: <ul style="list-style-type: none"> <li>Insurance policy or premium payment for insurance of the asset.</li> <li>Lease documents, if leased to another party.</li> <li>Storage arrangements.</li> <li>Review the <u>Personal Property Securities Register (PPSR)</u><del>personal property securities register</del> to ensure the asset(s) isn't encumbered. Retain <del>in on</del> audit file.</li> </ul> </li> <li>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: <ul style="list-style-type: none"> <li>Obtaining documentary evidence to support the valuation.</li> <li>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.</li> <li>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).</li> <li>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).</li> </ul> </li> </ul>
<b>G</b>	<b>RECEIVABLES AND PREPAYMENTS</b>
<b>G.1</b>	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.
<b>G.2</b>	Obtain details of other receivables and ensure that they are correctly accounted for.
<b>G.3</b>	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.
<b>G.4</b>	If the amount is receivable from a related party, check that the disclosures are appropriate, and review this further as part of your compliance <del>audit</del> <u>engagement</u> .
<b>G.5</b>	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.
<b>G.6</b>	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 <del>tax</del> <u>investor</u> statement.
<b>H</b>	<b>LIABILITIES</b>
<b>H.1</b>	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.
<b>H.2</b>	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
<b>H.3</b>	Review ageing of liabilities/payables and comment on any delay in payment.
<b>H.4</b>	Vouch prior year payables and accruals to payments during the year.
<b>H.5</b>	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
<b>H.6</b>	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
<b>H.7</b>	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).

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Ref	Audit Procedure
<b>I</b>	<b>MEMBER'S ENTITLEMENTS / ACCRUED BENEFITS</b>
<b>I.1</b>	<ul style="list-style-type: none"> <li>Obtain <del>a</del> listing of all <del>members</del><del>members'</del> account balances and check that the total agrees with accrued benefits in the financial report.</li> <li>Review the allocation of revenue, expenses, income tax, excess contributions tax and other items to members to ensure that they have been correctly apportioned.</li> <li>Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.</li> </ul>
<b>J</b>	<b>RESERVES –</b>
<del>J.1</del>	<del>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.</del>
<b>J.1</b>	<p><del>Reserves established prior to 1 July 2017 are permitted, in accordance with section 115 of the SISA and the fund's trust Deed. However, the management of these reserves must take into account the ATO's views SMSF* Regulator's Bulletin SMSFRB 2018/1.</del></p> <p><del>*Review SMSFRB 2018/1 – ATO's view on SMSFs and reserves</del>  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 <del>Super17</del> reforms <del>that apply restrictions to the level</del>  <del>from July 2017</del>  <del>that apply restrictions to the level</del> of tax concessions available to super:</p> <ul style="list-style-type: none"> <li>TSB manipulation in order to make NCCs;</li> <li>Reduce member balance to less than \$500k in order to make <del>"catch-up contributions";</del><del>contributions';</del> and</li> </ul> <p>Use of reserves to reduce the member balance in respect of TBA reporting.</p>
<b>J.2</b>	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.
<b>J.3</b>	Review the movements in the reserve during the period, to ensure <del>that they are</del> clerically accurate and in accordance with the <del>trustee's</del> <del>trustee</del> policy.
<b>J.4</b>	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
<b>J.5</b>	<del>Any</del> Ensure any allocation from reserves is in accordance with the trust deed, and <del>s115 SISA 1993, subsection 292-25(3), Regulation</del> ITAA 1997 and regulation 292-25.01 <del>ITAR 1997</del> (concessional contributions). The allocation can have implications for the member, if in excess of their concessional contribution cap.
<b>K</b>	<b>INVESTMENT AND OTHER REVENUE</b>
<b>K.1</b>	<p><u>Analytical Review</u></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
<b>K.2</b>	<p><u>Interest Income</u></p> <ul style="list-style-type: none"> <li>Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received.</li> <li>For bank interest conduct analytical review procedures.</li> </ul>
<b>K.3</b>	<p><u>Changes in Market Value</u></p> <ul style="list-style-type: none"> <li>Conduct an analytical review.</li> <li>Test the changes in market value calculations, including realised changes in market value, to ensure that they are correct.</li> <li>Reconcile to investments, for substantive audits.</li> </ul>
<b>K.4</b>	<p><u>Dividends</u></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

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Ref	Audit Procedure
K.5	<p><u>Trust Distributions</u></p> <ul style="list-style-type: none"> <li>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% <u>per cent</u> discount to capital gains – check the percentage applied is applicable to SMSFs.</li> </ul>
K.6	<p><u>Rental Income</u></p> <ul style="list-style-type: none"> <li>Conduct an analytical review against rental agreement and period of tenancy.</li> <li>Vouch rental income against agent's statements or other records, as appropriate.</li> <li>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.</li> <li>Check any rent reviews in the lease agreements during the period have been correctly applied.</li> <li>Audit files should include a copy of the lease agreement and be carried forward annually until the term of the lease expires.</li> </ul>
K.7	<p><u>Other Income</u></p> <ul style="list-style-type: none"> <li>If the SMSF receives other forms of income, ensure that these are correctly calculated, earned and disclosed.</li> </ul>
K.8	<p><u>Non-arm's length income –(NALI)</u></p> <ul style="list-style-type: none"> <li>Review transactions and investment acquisitions for <u>the potential for the imposition of possible</u> NALI. NALI can also be invoked from non-arm's length expenses <u>–(NALE-</u></li> <li><u>A). Unreported NALI could have a</u> significant impact <u>to on</u> the tax calculation <u>can occur if NALI is present and not reported.</u></li> </ul>
L	<b>CONTRIBUTIONS AND TRANSFERS IN</b>
L.1	<p><u>Concessional contributions</u></p> <ul style="list-style-type: none"> <li>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 <u>ATO's</u> single touch payroll (STP) system.</li> <li>Where the contributions are from a related employer, ensure you verify the contributions via the STP process. Small employers (less than 19 <u>employees</u>) 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<u>–.</u></li> <li>Test that contributions have been allocated to the member for whom they were remitted.</li> <li>For concessional contributions made by the member, obtain a copy of the <u>section 290-170 Notice of Intention to Deduct (form</u> or notice prepared in accordance with the requirements of <u>ssection 290-170 of the ITAA (1997).</u> and confirm the details are consistent with the accounting treatment.</li> <li>Review the receipt of <u>“catch-up contributions”</u> <u>contributions</u> to ensure the qualifying conditions were met for the fund to receive the contribution. The 2020 financial year is the first year of operation <u>offor the</u> carry forward <u>of the</u> unused concessional contribution cap. Unused contributions <u>are no longer available</u> <u>can be carried forward, but will expire</u> after <u>year-5</u> <u>and no unused</u> years. <u>The ability to make a catch-up concessional</u> contribution <u>is available if the member applies only where a</u> total <u>superannuation</u> <u>super</u> balance (TSB) at the start of the income year is <u>less than</u> \$500,000 <u>or more.</u></li> <li>Audit files could include documentation verifying the members qualification to utilise the catch-up opportunity.</li> <li>For members &gt; 65, verify the substantiation that the work test has been met and the contribution was permitted.</li> <li>Ensure only mandated contributions received for members aged <u>+≥75.</u></li> <li>Ensure no-TFN contributions were received.</li> </ul>
L.2	Where co-contributions have been received, test that they have been allocated to the member for whom they were remitted.
L.3	<ul style="list-style-type: none"> <li>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.</li> </ul>
L.4	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.

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Ref	Audit Procedure
<b>L.5</b>	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.
<b>M</b>	<b>EXPENSES</b>
<b>M.1</b>	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.
<b>M.2</b>	Vouch material items to invoices, ensuring the expenses are attributable to the SMSF or are apportioned correctly.
<b>M.3</b>	Agree administration fees to the agreement with the administrator.
<b>M.4</b>	Agree management fees to the agreement with the investment manager.
<b>N</b>	<b>LUMP SUMS AND PENSIONS PAID</b>
<b>N.1</b>	<ul style="list-style-type: none"> <li>Obtain a listing of all benefits paid and reconcile benefits paid to the prior year members' statement, adjusted for current period transactions.</li> <li>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.</li> <li><del>Audit</del>Ensure audit workpapers <del>to</del> include evidence of the validity of benefit payments to members.</li> <li>Confirm that each benefit was paid in accordance with the terms of the fund's governing rules.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>Investigate liabilities at year end to ensure that pensions have been paid, and not just accrued.</li> </ul>
<b>O</b>	<b>TAX</b>
<b>O.1</b>	<p>Review tax work papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies, including:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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 <del>“disregarded small fund assets”</del> <u>assets</u>.</li> <li>ECPI has been correctly applied to income but not contributions.</li> <li>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.</li> <li>Franking credits from dividends are correctly adjusted.</li> <li>Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly.</li> <li>CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount.</li> <li>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.</li> <li>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: <a href="#">Foreign Tax Offset</a>.</li> </ul>

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Ref	Audit Procedure
	<ul style="list-style-type: none"> <li>• 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.</li> <li>• <del>Non-arm's length income</del> Confirm whether NALI has been correctly identified and tax applied at the appropriate rate.</li> </ul>
O.2	Where deferred tax is reported by the fund, complete the following procedures: <ul style="list-style-type: none"> <li>• Check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report, including:               <ul style="list-style-type: none"> <li>- Deferred tax assets arising from unrealised losses are after discounting.</li> <li>- 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.</li> </ul> </li> <li>• Prove the deferred tax assets and liabilities represent the tax effect of timing differences.</li> </ul>
O.3	Confirm that tax has been calculated for ordinary income at 15% <del>per cent</del> , unless the SMSF has received a notice advising it is non-complying for tax purposes. Ensure <del>non-arm's length income</del> NALI 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	<b>GOING CONCERN</b>
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: <ul style="list-style-type: none"> <li>• Review the net asset position of the fund to determine if a net asset deficiency exists.</li> <li>• Consider a modification to the auditor's report.</li> <li>• Solvency issues may be identified if the <del>financial statements</del> significant fund assets of the SMSF have not been correctly stated at market value. If you cannot obtain appropriate substantiation of the market value of significant fund assets or liabilities, <del>you</del> the auditor may not be able to <del>attest</del> accept that the <del>fund</del> SMSF financial report is prepared on a "going concern" basis.</li> </ul>
Q	<b>SUBSEQUENT EVENTS</b>
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	<b>OTHER AUDIT CONSIDERATIONS</b>
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: <ul style="list-style-type: none"> <li>• Trustee minutes.</li> <li>• Solicitors' representations.</li> <li>• Trustees' representations.</li> </ul>
R.3	Consider the risk of fraud in the design of audit procedures and when evaluating <del>trustees</del> trustee representations. Make reference to the requirements of ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> .
S	<b>TRUSTEE REPRESENTATIONS</b>
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.

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

T	COMMUNICATIONS WITH <del>TRUSTEE</del> TRUSTEE
	<p>Check that all matters of governance interest arising from the audit are communicated to the <del>trustee</del>trustee on a timely basis, including:</p> <ul style="list-style-type: none"><li>• Responsibilities of the auditor in relation to the financial report audit, usually communicated in the engagement letter;</li><li>• 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;</li><li>• Auditor's views about significant findings from the audit engagement;</li></ul> <p>Significant matters discussed with the <del>trustee</del>trustee include uncorrected misstatements aggregated by the auditor during the audit that were determined by the <del>trustee</del>trustee to be immaterial, both individually and in the aggregate, to the financial report taken as a whole;</p> <ul style="list-style-type: none"><li>• Confirmation as to the independence of the auditor.</li></ul>

Appendix 5

(Ref: Para. 598)

ILLUSTRATIVE EXAMPLES OF THREATS TO INDEPENDENCE IN A

AAS	Australian Accounting Standards	Type of threat
Scenario	ACR	Self-interest

SELF-MANAGED SUPERANNUATION FUND

The following table, based on principles stated in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)<sup>249</sup>, 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.<sup>250</sup>

TABLE OF ABBREVIATIONS

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.
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<sup>249</sup> Issued June 2010; amended 2011, 2013, 2017, April 2018 (compiled November 2018) with effect from January 2020.  
<sup>250</sup> In addition to these examples, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide*, Fifth Edition, 2020.

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

A sole practitioner prepares a SMSF's accounts and performs the financial audit and compliance engagement. <a href="#">AML/C TF Act</a>	X	X				No safeguards are available which would enable the practitioner to perform the audit engagement. The resultant loss of work by withdrawing may be overcome by these arrangements are subject to regular rotation to maintain independence of the referring practitioner. <a href="#">Anti-Money Laundering and Counter-Terrorism Financing Act 2006</a>
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. <a href="#">ASAE</a>						<del>X</del> <a href="#">Australian Standards on Assurance Engagements</a>
A sole practitioner provides financial advice and audits the SMSF. <a href="#">ASIC</a>	X	X		X		No safeguards are available which would enable the practitioner to perform the audit engagement. If the practitioner withdraws from either the financial advisory or the audit engagement, it is impossible for practitioners or firms for referral of SMSF audit engagements. It is impossible for the engagement should be directly with the SMSF Trustee not via an agency.
A two partner practice in which one partner is asked to audit the SMSF of which the other partner is a trustee. <a href="#">ATO</a>						<a href="#">Australian Taxation Office</a> <del>X</del>
<a href="#">CGT</a>						<a href="#">Capital gains tax</a>
<a href="#">ECPI</a>						<a href="#">Exempt current pension income</a>
<a href="#">GPFR</a>						<a href="#">General Purpose Financial Report</a>
2. the SMSF's accounts and the other partner conducts the audit. The preparation of the financial statements is considered "routine and mechanical in nature". <a href="#">GST</a>	X	X			X	Routine and mechanical in nature would apply in situations where the accounting is straightforward. Examples include; where the SMSF's investments are relatively straightforward. Threats may be overcome by safeguards including removal of staff who are making decisions on behalf of the SMSF, requiring source data and understanding of the responsibility for the accounting work performed by the firm and disclosure of the work performed.
<a href="#">IDPS</a>						<a href="#">Investor Directed Portfolio Service</a>
<a href="#">IHA</a>						<a href="#">In-house asset</a>
<a href="#">ITAA</a>						<a href="#">Income Tax Assessment Act 1936 &amp; 1997</a>
<a href="#">NALI</a>						<a href="#">Non-arm's length income</a>
<a href="#">NALE</a>						<a href="#">Non-arm's length expense</a>
<a href="#">NCC</a>						<a href="#">Non-concessional contribution</a>
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. <a href="#">PAYG</a>	X	X			X	No safeguards are available which would enable the practitioner to perform the audit engagement.
<a href="#">SGC</a>						<a href="#">Superannuation Guarantee Contribution</a>
<a href="#">SISA</a>						<a href="#">Superannuation Industry (Supervision) Act 1993</a>
<a href="#">SISR</a>						<a href="#">Superannuation Industry (Supervision) Regulations 2001</a>

# Guidance Statement GS 009 Auditing Self-Managed Superannuation Funds

3.1. 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			<p><u>SMSE</u> 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.</p>	<u>Self Managed Superannuation Fund</u>
A firm prepares the SMSF's annual return and also undertakes the audit of the SMSF.							<u>Special Purpose Financial Statements</u>
<u>SPFS</u>							
<u>SPT</u>							<u>Sole purpose test</u>
<u>TFN</u>							<u>Tax File Number</u>
<u>TRIS</u>							<u>Transition to retirement income stream</u>
<u>TSB</u>							<u>Total superannuation balance</u>
<u>WRAP</u>							A sole practitioner audits numerous SMSFs but they are all administered engages the auditor on behalf of the trustees. The sole practitioner is very referrals from the service provider. <u>Investment service operated Order [CO 13/763]</u>
4. 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				X		Safeguards include removing the audit member from the audit engagement team.	

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

supervises the team member's work.						
5.—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 on 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.
6.—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.
7.—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.
8.—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 <a href="#">ATO Guidance</a> . 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 <a href="#">ATO Guidance</a>
9.—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 broader audit client book would provide some mitigation from the independence threat.





## AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 3.0

**Meeting Date:** June 2020

**Subject:** ED ISA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and conforming and consequential amendments

**Date Prepared:** 23 May 2020

**Prepared By:** Rene Herman

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☒ **Action Required**

☐ **For Information Purposes Only**

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### Agenda Item Objectives

1. For the AUASB to approve the Consultative Paper *Exposure of International Auditing and Assurance Standards Board (IAASB) Exposure Draft, ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and conforming and consequential amendments (Agenda Item 3.1) thereby approving the exposure of ISA 600 for an exposure period of 70 days.

### Background

1. In April 2020, the IAASB issued Exposure Draft ISA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, with comments due by 2 October 2020.
2. At the 26 May 2020 AUASB meeting, the AUASB approved Phase 1 of the ISA 600 project plan – to conduct outreach and respond to the IAASB ED-ISA 600.
3. The AUASB has been tracking the progress of the revision of ISA 600 in relation to the AUASB's comments on the original invitation to comment (ITC). The ATG reported back to the AUASB on these matters at each of the 2019 AUASB meetings:
  - (a) 6 March 2019 (Agenda Item 7.3)
  - (b) 12 June 2019 (Agenda Item 2.2)
  - (c) 11 September 2019 (Agenda Item 4.3)
  - (d) 3 December 2019 (Agenda Item 16.2)
4. A summary of the [AUASB comments on the Invitation to Comment \(ITC\)](#) and AUASB comments throughout the progress of this exposure draft along with how the proposed ISA 600 has dealt with these comments is attached in Appendix 1 to this paper.

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*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.*

5. At the 2 March 2020 AUASB meeting, the AUASB provided their remaining issues on the then close to final proposed ISA 600. A summary of these matters and where the Proposed ISA 600 landed is summarised in below:

- a) The AUASB expressed concern with **the lack of clarity on the scoping into ED-ISA 600** based on when the auditor has been engaged to audit group financial statements as defined. Additionally, the AUASB commented on the lack of clarity around the definition of component being an audit-focused concept as determined by the auditor. The AUASB considered that the introductory paragraphs would need to be clearer, the term consolidation process as described would need to be clearer and that guidance may be required to demonstrate the scalability of the standard where an auditor determines there to be only one component in a very simple group scenario for example a single entity with local branches.

*Changes / comment on the final released ED:*

The introductory paragraphs and related application material paragraphs have been redrafted and are now much clearer as to the scope into the standard, and with greater clarity around the concept of a component.

The taskforce acknowledges some concerns may exist about the application of ED-ISA 600 to smaller, less complex groups comprised of only a small number of entities or business units. The IAASB notes that such engagements are nonetheless required to apply the requirements of the key underlying ISAs, including the enhanced risk assessment in ISA 315 (Revised 2019) and the focus on direction, supervision and review in proposed ISA 220 (Revised). In addition, for some of these engagements, the group engagement team may itself be able to perform the procedures necessary to identify, assess and respond to the risks of material misstatement of the group financial statements, without the need to involve component auditors. In these situations, the use of separate sections in ED-ISA 600 to highlight the requirements that are applicable when component auditors are involved provides inherent scalability, as such requirements would not be relevant in the circumstances.

The IAASB taskforce has asked a specific question on scalability within the Exposure Draft and the AUASB can raise any further concerns in their submission to the IAASB.

[Refer also Attachment to this board meeting summary paper, item 3 for more detail].

- b) The **acceptance and continuance requirements** and associated application material required revisiting, in that the AUASB did not consider it reasonable to impose a requirement that Group Management would agree to provide unrestricted access to persons within the group that is outside of the control of group management and that if such access was not granted, the engagement could not be accepted.

*Changes / comment on the final released ED:*

Within the terms of engagement there is still the requirement that group management provides unrestricted access to persons within the group. The taskforce commented that the requirements in paragraph 15 of ED-ISA 600 are consistent with the requirements of ISA 210. The taskforce did however delete the associated application material *‘if the group engagement team cannot obtain the agreement of group management that it acknowledges and understands its responsibilities in accordance with paragraph 13, the group engagement team is required to not accept the group audit engagement, unless required by laws or regulations to do so.’*

Additionally, paragraph 16 and the related application material paragraphs provides guidance on situations where there are restrictions on access to people or information.

[Refer also Attachment to this board meeting summary paper, item 4 for more detail].

- c) The AUASB found the **interplay between Proposed ISA 220 *Quality Management for an Audit of Financial Statements (Proposed ISA 220)* and ED-ISA 600** difficult at times, with some inconsistencies in application as to whether the group engagement partner needed to take responsibility for an area of the audit, or whether they could assign responsibility to others as provided for in Proposed ISA 220.

*Changes / comment on the final released ED:*

No changes made, however a redrafted paragraph 6 in ED-ISA 600 better articulates assignment of responsibility. The AUASB can raise additional concerns in their submission to the IAASB if the need arises.

[Refer also Attachment to this board meeting summary paper, item 5 for more detail]..

- d) The **documentation requirements** in ED-ISA 600 were appropriately principles-based, however the AUASB did not support application material paragraph A130 *‘when relevant parts of the component auditor documentation are unable to be included.....prepare documentation that reflects the procedures performed, evidence obtained....The Group engagement team uses professional judgement in determining the nature and extent of such documentation.....’* suggesting the reperformance/complete duplication of component auditor’s work/working papers where there was access to documentation issues.

*Changes / comment on the final released ED:*

Paragraph A130 has been redrafted and now includes *‘when the GET determines that it may be desirable to include relevant parts....but such documentation is unable to be included...’* This construct demonstrates that the auditor had determined that it was necessary to include the information but can’t because of access issues.

[Refer also Attachment to this board meeting summary paper, item 7 for more detail].

## **Matters to Consider**

### ***Part A – General***

6. The International Auditing and Assurance Standards Board (IAASB) have issued Exposure Draft, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and conforming and consequential amendments (IAASB ED ISA 600).
7. The Consultative Paper at Agenda Item 3.1 provides an overview of the how the Australian Auditing and Assurance Standards Board (AUASB) is requesting feedback from Australian stakeholders on the proposed changes and their impact on the Australian assurance market.

## **Part B – Timeline**

9 June 2020	AUASB meeting to approve ED 02/20 and ED 03/20
15 June 2020	Issue ED 02/20 and ED 03/20 with a 70-day comment period closing 24 August 2020
Mid June 2020	IAASB Educative Webinar – advertised via website and social media platforms
Late June – Mid August	Remote roundtables via Zoom with limited participants at each meeting – advertised via website and social media platforms with some targeted advertising. Roundtables would be split into large national networks, mid-size and professional bodies, other.
24 August 2020	Comment period closes
Mid-September 2020	Feedback summary and draft response to AUASB – form and timing of meeting to be determined
End September 2020	Out of session AUASB approval of final response to IAASB
2 October 2020	Submission due to IAASB

## **Part C – NZAuASB**

8. The ATG will communicate in due course with the NZAuASB staff to understand feedback from New Zealand stakeholders as part of the NZAuASB exposure process.

## **Part D – “Compelling Reasons” Assessment**

9. As this project is only at ED stage, it is too early to identify compelling reasons to modify ISA 600. The ATG will continue to monitor the progression of ED-ISA 600 based on stakeholder feedback (including feedback from the AUASB) and compelling reasons will be considered before finalising the final ISA 600. One of the aims of the International Influencing Strategy is to early influence in the IAASB standard setting process so that Australian stakeholder feedback is taken into account by the IAASB when developing the standard from exposure draft thereby reducing the need for compelling reason amendments.

## **AUASB Actions**

10. Read, consider and vote to issue the Consultative Paper *Exposure of International Auditing and Assurance Standards Board (IAASB) Exposure Draft, ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors), and conforming and consequential amendments* (Agenda Item 3.1).
11. Consider if any other Australian specific questions on exposure should be included in the Consultative Paper.

## **AUASB Technical Group Recommendations**

12. The AUASB approve the Consultative Paper with a comment period of 70 days.

**Material Presented**

Agenda Item 3.0	Jun20_3.0_BMSP_ED_ASA600
Agenda Item 3.1	Jun20_3.1_Consultative Paper
Agenda Item 3.2	Jun20_3.2_IAASB_EDISA600

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## Attachment to Board Meeting Summary Paper

### Summary of AUASB key matters and how they have been dealt with by the IAASB in the final Exposure Draft – ED-ISA 600

	<b>AUASB comments on the Invitation to Comment and throughout the development of the exposure draft</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders' comments on the Invitation to Comment and progression through the IAASB</b>
1	At the time of the ITC, the AUASB supported a combination of a top down/bottom up approach to scoping of group audits. Since the progression of ISA 315, the AUASB supports a top down risk-based approach – with audit effort responsive to the risk of material misstatement.	<p>A risk-based approach has been taken to Proposed ISA 600 aligned to ISA 315 and ISA 330 – to this end, the current drafting of ISA 600 has removed the definition and concepts behind significant components. Rather, ISA 315 (Revised 2019) requires the auditor to understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and to identify and assess the risks of material misstatement. ISA 330 requires the auditor to design and implement responses to address the assessed risks.</p> <p>The risk-based approach for a group audit can be characterised as thinking about what, how and by whom and where, work is to be performed, for example:</p> <ul style="list-style-type: none"> <li>▪ What – determining significant classes of transactions, account balances or disclosures in the group financial statements to identify and assess risks of material misstatement of the group financial statements at the assertion level;</li> <li>▪ How – determining the most appropriate audit strategy (e.g., centralised or decentralised testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and</li> <li>▪ By whom and where – determining whether the group engagement team or component auditors will obtain the audit evidence, and where procedures need to be performed to obtain audit evidence based on the group engagement team's view of the group structure, in response to the assessed risks of material misstatement.</li> </ul>
2	Explanation on elements of ISA 600 applicability where the component auditor is the group auditor.	The standard has been structured so that each section of the standard has a sub-section that describes the considerations when component auditors are involved as applicable. This makes it clear which interactions are needed between the group and component auditor throughout the stages of the engagement; and demonstrates that component auditors are integral and need to be involved throughout the audit.
3	Broadening to ISA to include all types of structures including for	The entry point into the standard, i.e. where ISA 600 applies is when the auditor has been engaged to audit group financial statements - the preparation of group financial statements is the

	<b>AUASB comments on the Invitation to Comment and throughout the development of the exposure draft</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders' comments on the Invitation to Comment and progression through the IAASB</b>
	<p>example branches, divisions, joint ventures.</p> <p>Additionally, refer to paragraph 5(a) of the Board Meeting Summary Paper.</p>	<p>entry point into the standard. The following revised definitions are relevant to the scope and audit of the standard:</p> <ul style="list-style-type: none"> <li>▪ Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. (see paragraph 9(k) of ED-600).</li> <li>▪ Component – a location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit. (see paragraph 9(b) of ED-600).</li> <li>▪ Consolidation process – for purposes of ISA 600 this includes consolidation, proportionate consolidation, equity methods accounting, the aggregation of financial information of branches, division, presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control. (see paragraph 11 of ED-600).</li> </ul>
4	<p>Guidance on practical access issues.</p> <p>Additionally, refer to paragraph 5(b) of the Board Meeting Summary Paper.</p>	<p>The special considerations for the terms of engagement for a group audit, relates to group management acknowledging and understanding its responsibility to provide the engagement team with unrestricted access to people or information.</p> <p>The IAASB decided to differentiate between restrictions on access to information and people that are outside the control of group management (see paragraph 16 of ED-600) and those that are imposed by group management (see paragraph 17 of ED-600).</p> <p>Additionally, the IAASB have included new application material describing ways to overcome restrictions on access to people or information but recognise that the standard cannot enforce access to people and information. The application material includes:</p> <ul style="list-style-type: none"> <li>▪ Paragraph A27 of ED-600 explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.</li> <li>▪ Paragraph A28 of ED-600 highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The IAASB purposely kept this application material at a high-level and only included a few examples to avoid the perception that all restrictions are listed in this paragraph.</li> <li>▪ Paragraph A29 of ED-600 explains how the group engagement team may overcome possible restrictions in</li> </ul>

	<b>AUASB comments on the Invitation to Comment and throughout the development of the exposure draft</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders' comments on the Invitation to Comment and progression through the IAASB</b>
		<p>various situations. Given the interest of stakeholders on this topic, the IAASB included several examples, including on access restrictions related to equity-accounted investments. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the auditor that was appointed by the component.</p> <ul style="list-style-type: none"> <li>▪ Paragraph A30 of ED-600 focuses on the effects when it is not possible to overcome restrictions on access to people and information. This paragraph highlights that, in such circumstances, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may then communicate with regulators, listing authorities or others about the restrictions.</li> </ul>
5	<p>The involvement of the group engagement partner (GEP) to direct and supervise the component teams work; and additional application material on communications upward from the component auditor to the group auditor could be strengthened as the group auditor is not necessarily the best placed to determine and understand the significant risks at a component level.</p> <p>Additionally, refer to paragraph 5(c) of the Board Meeting Summary Paper.</p>	<ol style="list-style-type: none"> <li>1. Tighter linkage to Proposed ISA 220 including: <ul style="list-style-type: none"> <li>▪ Requirement for GEP sufficiently and appropriately involved throughout the group audit engagement with application material recognising that ISA 220 allows for the assignment of responsibilities.</li> <li>▪ Requirement for GEP to determining that component auditors have appropriate competency and capability – extensive application material provided.</li> <li>▪ Requirement for the GET to take responsibility for the nature, timing and extent of direction and supervision of component auditors – while recognising the scalability of this in relation to risk and judgement – extensive application material provided.</li> </ul> </li> <li>2. Under the risk-based approach, the group engagement team takes responsibility for the identification and the assessment of the risks of material misstatement (see paragraph 31 of ED-600). When the group engagement team involves component auditors in the risk assessment procedures or identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team is required to consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the</li> </ol>

	<b>AUASB comments on the Invitation to Comment and throughout the development of the exposure draft</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders' comments on the Invitation to Comment and progression through the IAASB</b>
		<p>assessment of the risks of material misstatement of the group financial statements (see paragraph 32 of ED-600)..</p> <p>3. Refined requirements and additional application material regarding upwards communication from the Component Auditor to the GET. Downward communications from the GET to the component auditor is dealt with in each of the sub-sections that describes the special considerations when component auditors are involved.</p>
6	Guidance required in relation to component materiality, component performance materiality and component trivial thresholds, particularly in relation to the concept of aggregation risk, refer C.5 below.	<p>1. Aggregation Risk: the IAASB has added a definition of aggregation risk in ED-600 (see paragraph 9(a) of ED-600). Paragraph A11 of ED-600 indicates that aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Therefore, broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.</p> <p>2. Given the risk-based approach in ED-600, the IAASB determined that the materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit is most appropriately referred to as 'component performance materiality' and has included a definition of that term (see paragraph 9(e) of ED-600). The group engagement team determines component performance materiality for each component at which audit procedures are to be performed and communicates that amount to component auditors when they are involved in planning and performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). The IAASB also added application material (see paragraph A75 of ED-600) to describe the factors the group engagement team may take into account in setting component performance materiality.</p> <p>3. The group engagement team to determine the clearly trivial threshold and communicate it to component auditors when they are involved in planning or performing</p>

	<b>AUASB comments on the Invitation to Comment and throughout the development of the exposure draft</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders' comments on the Invitation to Comment and progression through the IAASB</b>
		further audit procedures at the component (see paragraphs 29 and 30 of ED-600). In addition, to address issues identified by regulators and audit oversight bodies, this threshold cannot exceed the threshold established at the group level (see paragraph 29(b) of ED-600).
7	Guidance as to extent of documentation of the GETs involvement in the work of component auditors. Additionally, refer to paragraph 5(d) of the Board Meeting Summary Paper.	<p>The IAASB noted that, as for any audit engagement, the audit documentation for a group audit is subject to the requirements in ISA 230. The IAASB also noted that the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.</p> <p>The requirements and application material in relation to documentation have been enhanced/expanded, (see paragraphs 57 and A124; A129 - A130 of ED-600). Paragraph A124 of ED-600 indicates that the group engagement team may determine that it is appropriate to include relevant parts of the component auditor's documentation in the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). However, the extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.</p> <p>The IAASB acknowledges that audit documentation for a group audit engagement is an important public interest issue. Therefore, in addition to input on the requirements and application material with respect to documentation in ED-600, the IAASB encourages respondents to the ED to provide input about whether additional guidance would be helpful and, if so, suggestions for such additional guidance.</p>



June 2020

# Consultation Paper

## **Exposure of the IAASB's *Proposed ISA 600 Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*; and *Proposed Conforming and Consequential Amendments to Other Auditing Standards***

Issued by the Auditing and Assurance Standards Board



## **Obtaining a Copy of this Consultation Paper**

This Consultation Paper is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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**Consultation Paper *Exposure of the IAASB’s Proposed ISA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors); and Proposed Conforming and Consequential Amendments to Other Auditing Standards***

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*Important Note and Disclaimer*

This Consultation Paper is issued by the AUASB to provide information to auditors and assurance practitioners about the AUASB’s implementation in Australia of the IAASB’s proposed ISA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)* and Proposed Consequential and Conforming Amendments.

This Consultation Paper does not establish or extend the requirements under an existing AUASB Standard(s) and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors and assurance practitioners are required to comply when conducting an audit or other assurance engagement. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## **CONSULTATION PAPER**

### ***Exposure of the IAASB's Proposed Auditing Standard ISA 600 Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors); and Proposed Conforming and Consequential Amendments to Other Auditing Standards***

#### **Introduction**

1. The International Auditing and Assurance Standards Board (IAASB) have issued Exposure Draft, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and conforming and consequential amendments (IAASB ED ISA 600).
2. This Consultation Paper provides an overview of the how the Australian Auditing and Assurance Standards Board (AUASB) is requesting feedback from Australian stakeholders on the proposed changes and their impact on the Australian assurance market.

#### **Overview**

3. The aim of this Consultation Paper is to provide stakeholders with:
  - (a) Information as to how IAASB ED ISA 600 is being exposed by the AUASB;
  - (b) Request for comments
  - (c) Background to the matters raised by the AUASB at the time of the IAASB Invitation to Comment and how IAASB ED ISA 600 has addressed these matters; and
  - (d) Information about the Auditing and Assurance Standards Board's (AUASB) approach to implementing IAASB ED ISA 600 in Australia.
4. IAASB ED ISA 600 includes the IAASB's Explanatory Memorandum (EM) and is provided as an attachment to this Consultation Paper.

#### **Format of the Australian Exposure**

##### *A change in process*

5. The IAASB version of the IAASB ED ISA 600 has been issued for comment in Australia by the AUASB without modification. The process of issuing without modification is a new process discussed and agreed by the AUASB at its 26 May 2020 AUASB meeting (Agenda Item 3).
6. The approach of "wrapping-around" the IAASB's proposed standard with an Australian Consultation Paper:
  - (a) Provides the best opportunity to obtain robust feedback from Australian stakeholders about significant matters at the correct stage in the IAASB standard-setting process.
  - (b) Results in an Australian exposure process which closely follows the IAASB release and maximises stakeholder's time to consider the changes.
  - (c) Focuses the AUASB's deliberations on significant matters identified by the AUASB over the course of the proposed standard's development by the IAASB.

- (d) The final Australian standard could be issued at a very similar time to that of the international standard with the advantage being that Australian entities have the same adoption response time as international entities.

*Material issued as part of this process*

- 7. The following materials have been issued to seek Australian stakeholder feedback:
  - (a) Consultation Paper to the IAASB’s ED ISA 600 (this document);
  - (b) Exposure Draft, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and conforming and consequential amendments (IAASB ED-600) including the Explanatory Memorandum. The IAASB’s full explanatory memorandum and exposure draft are included within this Australian Consultation Paper as an attachment.

## **Consultation Paper Questions**

Stakeholders are asked to respond to the AUASB on the following IAASB questions in order to inform us when responding to the IAASB:

### *ED ISA 600*

1. With respect to the linkages to other standards:
  - (a) Does ED ISA 600 have appropriate linkages to other International Auditing Standards and with the proposed ISQMs?
  - (b) Does ED ISA 600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant International Auditing Standards, including proposed ISA 220? Are there other special considerations for a group audit that you believe have not been addressed in ED ISA 600?
2. With respect to the structure of the standard, do you support the placement of sub-sections throughout ED ISA 600 that highlight the requirements when component auditors are involved?
3. Do the requirements and application material of ED ISA 600 appropriately reinforce the exercise of professional scepticism in relation to an audit of group financial statements?

### Specific Questions

4. Is the scope and applicability of ED ISA 600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED ISA 600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).
5. Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognising that group financial statements, as defined in ED ISA 600, includes the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?
6. Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?
7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED ISA 600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?
8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the AUASB is interested in views about:
  - (c) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
  - (d) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate,

including sufficient involvement of the group engagement partner and group engagement team?

- (e) What practical challenges may arise in implementing the risk-based approach?
- 9. Do you support the additional application material on the commonality of controls and centralised activities, and is this application material clear and appropriate?
- 10. Do you support the focus in ED ISA 600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?
- 11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:
  - (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED ISA 600?
  - (b) Do you agree with the application material in paragraphs A129 and A130 of ED ISA 600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?
- 12. Are there any other matters you would like to raise in relation to ED ISA 600?

#### Request for General Comments

- 13. The AUASB is also seeking comments on the matters set out below:
  - (a) **Effective Date**—Recognising that ED ISA 600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The AUASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ASA.

#### Australian specific questions

The AUASB is especially interested in stakeholders views on:

- 14. Have applicable laws and regulations been appropriately addressed in the proposed standard and are there any references to relevant laws or regulations that have been omitted? Do stakeholders support the need for an Australian insertion application material paragraph consistent with that of extant ASA 600 paragraph Aus A12.1 as explained in paragraph 19 of this Consultation Paper?
- 15. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 16. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
- 17. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:
  - (a) Where those costs are likely to occur;

- |     |     |   |
|-----|-----|---|
|     | (b) | The estimated extent of costs, in percentage terms (relative to audit fee); and   |
|     | (c) | Whether expected costs outweigh the benefits to the users of audit services?  |
| 18. |     | What, if any, implementation guidance auditors, preparers and other stakeholders would like the AUASB to issue in conjunction with the release of ISA 600 (specific questions/examples would be helpful). |
| 19. |     | Are there any other significant public interest matters that stakeholders wish to raise?  |

## **Background**

### **IAASB**

8. A strategic objective of the IAASB is to ensure the International Standards on Auditing (ISAs) continue to form the basis for high quality, valuable and relevant audits conducted worldwide by responding on a timely basis to issues noted in practice and emerging developments.
9. IAASB ED-600 is part of the IAASB's commitment to advancing audit quality globally and proposes to strengthen the auditor's approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other International Auditing Standards.
10. The more significant changes proposed in ED ISA 600 are:
  - (a) Clarified the scope of the standard, through the introductory paragraphs and definitions and related application material, including whether, and how, ED ISA 600 applies for:
    - Shared service centres;
    - Entities with branches and divisions; and
    - Non-controlled entities, including equity-accounted investees and investments carried at cost.
  - (b) New definitions including the definitions of component and group financial statements.
  - (c) Clarified and reinforced that all International Auditing Standards need to be applied in a group audit engagement through establishing stronger linkages to the other International Auditing Standards, in particular to proposed ISA 220, ISA 315 (Revised 2019) and ISA 330.
  - (d) Introduced a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:
    - Focusing the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement; and
    - Including separate sections throughout to highlight the requirements and application material for circumstances when component auditors are involved.
  - (e) Enhanced the documentation requirements and included application material to emphasise the linkage to the requirements in ISA 230<sup>1</sup> and to clarify what the group engagement team may need to document in different situations, including when there are restrictions on access to component auditor documentation.
  - (f) Clarified how the requirements in proposed ISA 220 apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work.
  - (g) Focused the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements, and

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<sup>1</sup> ISA 230, *Audit Documentation*

emphasised the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.

- (h) Clarified how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.
  - (i) Clarified how the concepts of materiality and aggregation risk apply in a group audit.
  - (j) Emphasised the importance of professional scepticism, including when:
    - Determining the direction, supervision and review of the component auditor's work; and
    - The group engagement team's evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for forming an opinion on the group financial report.
11. A summary of the [AUASB comments on the IAASB's Invitation to Comment](#) and AUASB comments throughout the progress of this exposure draft along with how ED ISA 600 has dealt with these comments is attached as Appendix 1 to this Consultation Paper. The purpose of this summary is to clearly articulate to stakeholders where the AUASB's focus of attention has been on the progression of the development of the international ED exposure.

## **AUASB**

12. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when preparing its submissions to the IAASB. The AUASB makes formal submissions on EDs issued by the IAASB to contribute to the setting of international auditing and assurance standards.
13. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so; and to amend the ISAs only when there are compelling reasons to do so. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:
- [http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB-NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)
14. Compelling reasons fall broadly into two categories: legal and regulatory; and principles and practices considered appropriate in maintaining or improving audit quality in Australia. Compelling reasons are further guided by the AUASB's policy of harmonisation with the standards of the New Zealand Auditing and Assurance Standards Board (NZAuASB).
15. It is important to note that, at this stage of the exposure process, modifications to the proposed standards to reflect Australian principles and practices or laws and regulations (known as "compelling reasons") have not yet been considered by the AUASB. The proposed ISA 600 is concurrently being exposed by the IAASB and may be significantly amended by the IAASB at a later stage. Accordingly, the AUASB will consider all responses and the nature of any future IAASB amendments to ED-ISA 600 before deliberating if any potential Australian compelling reasons are required as part of its due process – refer also paragraph 19 of this Consultation Paper.
16. Additionally, the AUASB reserves the right to re-expose any or part of the proposed standard should it deem that the changes from the ED originally published are significant, whether due to changes made by the IAASB or Australian specific changes the AUASB proposes to make in accordance with the "compelling reasons" test. Any decision about the timing or nature of

re-exposure will be made by the AUASB after the IAASB has finalised its proposed standard and will be subject to the usual AUASB due process.

17. The AUASB will in due course adopt the revised ISA 600 into the Australian Auditing Standards that are made under section 336 of the *Corporations Act 2001*. Prior to implementation, the AUASB is required to consult with stakeholders and accordingly now issues Exposure Draft ED-ISA 600 for public exposure and comment. All comments received from stakeholders are considered by the AUASB when providing comments to the IAASB and prior to finalisation of the proposed revised standard.

### **The AUASB's approach**

#### *Exposure Draft Protocols*

18. The AUASB is seeking feedback from stakeholders to inform us when responding to the IAASB on ED-600, and to identify compelling reasons when it may be appropriate to amend ISA 600.
19. Under its convergence policies, the AUASB continues to include requirements and guidance that are in addition to, or a clarification of, the equivalent ISA, only when the compelling reason test has been met. Any such modifications continue to be identified in the Australian Auditing Standards by paragraph numbering commencing with an "Aus" prefix. Any such changes do not diminish the requirements of the equivalent ISA. Extant ASA 600 paragraph Aus A12.1 contains one such reference within application material. This insertion arises from a 'legal and regulatory' compelling reason relating to the *Corporations Act 2001*; and reads as follows: *Section 323B of the Corporations Act 2001 (the Act) requires the auditor of a controlled (component) entity to give the principal (group) auditor any information, explanation or assistance required under section 323A of the Act.* This insertion may be included in any final standard issued by the AUASB under the application material dealing with acceptance and continuance (access considerations).
20. In addition to those changes that meet the compelling reason test, the AUASB makes format and terminology changes to comply with requirements relating primarily to legislative instruments. Such changes are mechanical in nature and do not change the meaning of the equivalent ISA.

#### *General*

21. ED-ISA 600 will be open to stakeholders for a **70-day comment period** closing on 24 August 2020. This is to allow stakeholders time to respond to the AUASB on the ED, and for the AUASB to conduct further outreach and to collate all feedback into our submission to the IAASB due on 2 October 2020.
22. At the completion of the exposure period, the AUASB will consider stakeholders' submissions:
  - (a) to inform us when developing our response to the IAASB on their ED; and
  - (b) where the AUASB determines that a compelling reason exist, to inform us as to whether modifications may be required when we are adopting the final standard.

### **Other Outreach Activities**

23. In addition to the public exposure process, during the period June through August 2020 the AUASB will host an educative webinar taking stakeholders through the main changes proposed, as well as hosting several smaller virtual roundtable consultative meetings to obtain stakeholder feedback.

## **Application**

24. It is proposed that the revised standard will be applicable for financial reporting periods **beginning approximately 18 months after the approval of a final ASA**. This application date corresponds with that of the equivalent ISA.

## **Website Resources**

25. The AUASB welcomes stakeholders' input to the development of Australian Auditing Standards and regards both supportive and critical comments as essential to a balanced review of the proposed standards. Stakeholders are encouraged to access the websites of the [AUASB](#) and the [IAASB](#) to obtain further information.

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**Appendix 1 – Summary of AUASB matters raised on the IAASB invitation to comment and throughout the development of IAASB ED-ISA 600 and how these matters have been addressed in the final proposed ED-ISA 600**

	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders’ comments on the Invitation to Comment and progression through the IAASB</b>
1	At the time of the ITC, the AUASB supported a combination of a top down/bottom up approach to scoping of group audits. Since the progression of ISA 315, the AUASB supports a top down risk-based approach – with audit effort responsive to the risk of material misstatement.	<p>A risk-based approach has been taken to Proposed ISA 600 aligned to ISA 315 and ISA 330 – to this end, the current drafting of ISA 600 has removed the definition and concepts behind significant components. Rather, ISA 315 (Revised 2019) requires the auditor to understand the entity and its environment, the applicable financial reporting framework and the entity’s system of internal control, and to identify and assess the risks of material misstatement. ISA 330 requires the auditor to design and implement responses to address the assessed risks.</p> <p>The risk-based approach for a group audit can be characterised as thinking about what, how and by whom and where, work is to be performed, for example:</p> <ul style="list-style-type: none"> <li>▪ What – determining significant classes of transactions, account balances or disclosures in the group financial statements to identify and assess risks of material misstatement of the group financial statements at the assertion level;</li> <li>▪ How – determining the most appropriate audit strategy (e.g., centralised or decentralised testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and</li> <li>▪ By whom and where – determining whether the group engagement team or component auditors will obtain the audit evidence, and where procedures need to be performed to obtain audit evidence based on the group engagement team’s view of the group structure, in response to the assessed risks of material misstatement.</li> </ul>
2	Explanation on elements of ISA 600 applicability where the component auditor is the group auditor.	The standard has been structured so that each section of the standard has a sub-section that describes the considerations when component auditors are involved as applicable. This makes it clear which interactions are needed between the group and component auditor throughout the stages of the engagement; and demonstrates that component auditors are integral and need to be involved throughout the audit.
3	Broadening to ISA to include all types of structures including for	The entry point into the standard, i.e. where ISA 600 applies is when the auditor has been engaged to audit group financial statements - the preparation of group financial statements is the

	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders’ comments on the Invitation to Comment and progression through the IAASB</b>
	example branches, divisions, joint ventures.	<p>entry point into the standard. The following revised definitions are relevant to the scope and audit of the standard:</p> <ul style="list-style-type: none"> <li>▪ Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. (see paragraph 9(k) of ED-600).</li> <li>▪ Component – a location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit. (see paragraph 9(b) of ED-600).</li> <li>▪ Consolidation process – for purposes of ISA 600 this includes consolidation, proportionate consolidation, equity methods accounting, the aggregation of financial information of branches, division, presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control. (see paragraph 11 of ED-600).</li> </ul>
4	Guidance on practical access issues.	<p>The special considerations for the terms of engagement for a group audit, relates to group management acknowledging and understanding its responsibility to provide the engagement team with unrestricted access to people or information.</p> <p>The IAASB decided to differentiate between restrictions on access to information and people that are outside the control of group management (see paragraph 16 of ED-600) and those that are imposed by group management (see paragraph 17 of ED-600).</p> <p>Additionally, the IAASB have included new application material describing ways to overcome restrictions on access to people or information but recognise that the standard cannot enforce access to people and information. The application material includes:</p> <ul style="list-style-type: none"> <li>▪ Paragraph A27 of ED-600 explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.</li> <li>▪ Paragraph A28 of ED-600 highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The IAASB purposely kept this application material at a high-level and only included a few examples to avoid the perception that all restrictions are listed in this paragraph.</li> </ul>

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	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders’ comments on the Invitation to Comment and progression through the IAASB</b>
		<ul style="list-style-type: none"> <li>▪ Paragraph A29 of ED-600 explains how the group engagement team may overcome possible restrictions in various situations. Given the interest of stakeholders on this topic, the IAASB included several examples, including on access restrictions related to equity-accounted investments. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the auditor that was appointed by the component.</li> <li>▪ Paragraph A30 of ED-600 focuses on the effects when it is not possible to overcome restrictions on access to people and information. This paragraph highlights that, in such circumstances, the group engagement team may communicate about the restrictions to the group engagement team’s firm. The group engagement team’s firm may then communicate with regulators, listing authorities or others about the restrictions.</li> </ul>
5	Under acceptance and continuance, the AUASB did not consider it reasonable to impose a requirement that Group Management would agree to provide unrestricted access to persons within the group that is outside of the control of group management and that if such access was not granted, the engagement could not be accepted.	The IAASB taskforce considers that the requirements in paragraph 15 of ED-ISA 600 are consistent with the requirements of ISA 210. Additionally, paragraph 16 of ED-ISA 600 and the related application material paragraphs provides guidance on situations where there are restrictions on access to people or information.
6	The involvement of the group engagement partner (Group Engagement Partner) to direct and supervise the component teams work; and additional application material on communications upward from the component auditor to the group auditor could be strengthened as the group auditor is not necessarily the	<p>1. Tighter linkage to Proposed ISA 220 including:</p> <ul style="list-style-type: none"> <li>▪ Requirement for Group Engagement Partner sufficiently and appropriately involved throughout the group audit engagement with application material recognising that ISA 220 allows for the assignment of responsibilities.</li> <li>▪ Requirement for Group Engagement Partner to determining that component auditors have</li> </ul>

	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders' comments on the Invitation to Comment and progression through the IAASB</b>
	<p>best placed to determine and understand the significant risks at a component level.</p> <p>Additionally, the AUASB found the <b>interplay between Proposed ISA 220 <i>Quality Management for an Audit of Financial Statements</i> (Proposed ISA 220) and ED-ISA 600</b> difficult at times, with some inconsistencies in application as to whether the group engagement partner needed to take responsibility for an area of the audit, or whether they could assign responsibility to others as provided for in Proposed ISA 220</p>	<p>appropriate competency and capability – extensive application material provided.</p> <ul style="list-style-type: none"> <li>▪ Requirement for the Group Engagement Team to take responsibility for the nature, timing and extent of direction and supervision of component auditors – while recognising the scalability of this in relation to risk and judgement – extensive application material provided.</li> </ul> <p>2. Paragraph 6 in ED-ISA 600 better articulates assignment of responsibility.</p> <p>3. Under the risk-based approach, the group engagement team takes responsibility for the identification and the assessment of the risks of material misstatement (see paragraph 31 of ED-600). When the group engagement team involves component auditors in the risk assessment procedures or identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team is required to consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements (see paragraph 32 of ED-600)..</p> <p>4. Refined requirements and additional application material regarding upwards communication from the Component Auditor to the Group Engagement Team. Downward communications from the Group Engagement Team to the component auditor is dealt with in each of the sub-sections that describes the special considerations when component auditors are involved.</p>
7	Guidance required in relation to component materiality, component performance materiality and component trivial thresholds, particularly in relation to the concept of aggregation risk.	<p>1. Aggregation Risk: the IAASB has added a definition of aggregation risk in ED-600 (see paragraph 9(a) of ED-600). Paragraph A11 of ED-600 indicates that aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Therefore, broadly speaking, aggregation</p>

	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders’ comments on the Invitation to Comment and progression through the IAASB</b>
		<p>risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.</p> <p>2. Given the risk-based approach in ED-600, the IAASB determined that the materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit is most appropriately referred to as ‘component performance materiality’ and has included a definition of that term (see paragraph 9(e) of ED-600). The group engagement team determines component performance materiality for each component at which audit procedures are to be performed and communicates that amount to component auditors when they are involved in planning and performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). The IAASB also added application material (see paragraph A75 of ED-600) to describe the factors the group engagement team may take into account in setting component performance materiality.</p> <p>3. The group engagement team to determine the clearly trivial threshold and communicate it to component auditors when they are involved in planning or performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). In addition, to address issues identified by regulators and audit oversight bodies, this threshold cannot exceed the threshold established at the group level (see paragraph 29(b) of ED-600).</p>
8	Guidance as to extent of documentation of the Group Engagement Teams involvement in the work of component auditors.	The IAASB noted that, as for any audit engagement, the audit documentation for a group audit is subject to the requirements in ISA 230. The IAASB also noted that the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor’s audit file and need not be replicated in the group engagement team’s audit file.

**Consultation Paper *Exposure of the IAASB’s Proposed ISA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors); and Proposed Conforming and Consequential Amendments to Other Auditing Standards***

	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders’ comments on the Invitation to Comment and progression through the IAASB</b>
		<p>The requirements and application material in relation to documentation have been enhanced/expanded, (see paragraphs 57 and A124; A129 - A130 of ED-600). Paragraph A124 of ED-600 indicates that the group engagement team may determine that it is appropriate to include relevant parts of the component auditor’s documentation in the group engagement team’s audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). However, the extent to which such component auditor documentation is included in the group engagement team’s audit file is a matter of professional judgment.</p> <p>The IAASB acknowledges that audit documentation for a group audit engagement is an important public interest issue. Therefore, in addition to input on the requirements and application material with respect to documentation in ED-600, the IAASB encourages respondents to the ED to provide input about whether additional guidance would be helpful and, if so, suggestions for such additional guidance.</p>
9	<p>Through the development of the ED, the AUASB expressed concern with the lack of clarity on the scoping into ED-ISA 600 based on when the auditor has been engaged to audit group financial statements as defined. Additionally, the AUASB commented on the lack of clarity around the definition of component being an audit-focused concept as determined by the auditor. The AUASB considered that the introductory paragraphs would need to be clearer, the term consolidation process as described would need to be clearer and that guidance may be required to demonstrate the scalability of the standard where an auditor determines there to be only one component in a very simple group scenario for example a single entity with local branches</p>	<p>The introductory paragraphs and related application material paragraphs have been redrafted and there is greater clarity as to the scope into the standard, and with greater clarity around the concept of a component.</p> <p>The IAASB taskforce acknowledges some concerns may exist about the application of ED-ISA 600 to smaller, less complex groups comprised of only a small number of entities or business units. The IAASB notes that such engagements are nonetheless required to apply the requirements of the key underlying ISAs, including the enhanced risk assessment in ISA 315 (Revised 2019) and the focus on direction, supervision and review in proposed ISA 220 (Revised). In addition, for some of these engagements, the group engagement team may itself be able to perform the procedures necessary to identify, assess and respond to the risks of material misstatement of the group financial statements, without the need to involve component auditors. In these situations, the use of separate sections in ED-ISA 600 to highlight the requirements that are applicable when component auditors are involved provides inherent scalability, as such requirements would not be relevant in the circumstances.</p>

**Consultation Paper *Exposure of the IAASB’s Proposed ISA 600 Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors); and Proposed Conforming and Consequential Amendments to Other Auditing Standards***

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	<b>AUASB comments on the Invitation to Comment (ITC) and throughout the development of IAASB ED-ISA 600</b>	<b>IAASB approach to drafting Proposed ISA 600 to respond to stakeholders’ comments on the Invitation to Comment and progression through the IAASB</b>
		There is a specific question on scalability within the Consultation Paper.

**Appendix 2 - International Auditing and Assurance Standards Board (IAASB) Exposure Draft, ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, and conforming and consequential amendments (including Explanatory Memorandum)**

AGENDA ITEM 3.2 WILL BE INCLUDED HERE WHEN THIS IS RELEASED

**Exposure Draft**

**April 2020**

*Comments due: October 2, 2020*

*International Standard on Auditing*

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## Proposed International Standard on Auditing 600 (Revised)

Special Considerations—Audits  
of Group Financial Statements  
(Including the Work of  
Component Auditors)

and

Proposed Conforming and  
Consequential Amendments to  
Other ISAs



International Auditing  
and Assurance  
Standards Board

## About the IAASB

This Exposure Draft was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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## REQUEST FOR COMMENTS

This Exposure Draft, proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by October 2, 2020.**

Respondents are asked to submit their comments electronically through the IAASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: [www.iaasb.org](http://www.iaasb.org). The approved text is published in the English language.

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the Exposure Draft of proposed International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (ED-600), which was approved for exposure by the IAASB in March 2020.

## Background

2. In March 2009, the IAASB completed its Clarity Project, designed to improve the clarity and understandability of the ISAs and International Standard of Quality Control (ISQC). Shortly after the clarified ISAs became effective, the IAASB embarked on a post-implementation review, which was referred to as the “ISA Implementation Monitoring Project.” This project focused on obtaining input from a variety of different channels to learn about adoption and implementation issues related to the clarified ISAs. The findings from the post-implementation review are discussed in the 2013 publication, [Clarified International Standards on Auditing—Findings from the Post Implementation Review](#).
3. The findings from this review formed the basis for the [IAASB’s Strategy for 2015–2019](#) and the [IAASB Work Plan for 2015–2016](#). The IAASB agreed to focus on those areas from the ISA post-implementation review where key and important findings had indicated a need for priority consideration of changes to some aspects of the relevant ISAs. Accordingly, the IAASB included a project on ISA 600<sup>1</sup> and quality control in its 2015–2016 Work Plan.
4. As work commenced on the IAASB’s quality control and group audit standards, the working groups reflected on the issues identified through the post-implementation review of the clarified ISAs, inspection findings and ongoing outreach. The IAASB released the [Invitation to Comment](#) (ITC), *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, in December 2015 to obtain stakeholder views on key issues regarding quality control, group audits, and professional skepticism. Respondents generally agreed that the IAASB should take action to address the issues presented in the ITC.
5. In December 2016, the IAASB approved a [project proposal](#) to revise ISA 600 and the quality control standards. The project proposal set out, as objectives for revising ISA 600, to strengthen the auditor’s approach to planning and performing a group audit and to clarify the interaction between ISA 600 and the other ISAs.
6. In September 2017, the IAASB noted that the revisions to ISA 600 are contingent upon the revisions being made to other foundational standards such as ISQC 1,<sup>2</sup> ISA 220<sup>3</sup> and ISA 315 (Revised).<sup>4</sup> As the IAASB had a number of priority projects on its agenda, coupled with finite staff resources and Board capacity, the IAASB decided that the ISA 600 Task Force would focus its efforts on further liaison with the task forces responsible for revisions to ISQC 1, ISA 220, and ISA 315 (Revised) before progressing the other

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<sup>1</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>2</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

<sup>3</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>4</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

aspects of the ISA 600 project any further (i.e., providing necessary input to assist in how revisions to those standards address foundational issues and requirements that would also have relevance to group audits).

7. In October 2017, the ISA 600 Task Force prepared a [project update](#) describing the issues under consideration in the revision of ISA 600, and the relationship of those issues to other projects that address other international standards, in particular, ISA 220 and ISQC 1.
8. Given the progress made on the quality management standards and ISA 315 (Revised), the IAASB decided to continue with the revisions to ISA 600 in January 2019.

#### **Coordination with Other IAASB Task Forces and IESBA**

9. As noted above, the revisions to ISA 600 are contingent upon the revisions being made to other foundational standards. Given that those standards were under revision at the time of developing ED-600, the ISA 600 Task Force has had ongoing liaison with the task forces responsible for the revisions of these standards. The ISA 600 Task Force also had discussions with representatives and Staff of the International Ethics Standards Board for Accountants (IESBA) on several key matters.

#### *Quality Management Standards*

10. To make sure that ED-600 is aligned with changes made in the quality management standards, the ISA 600 Task Force Chair and Staff participated in ongoing coordination calls with the Chairs and Staff of the Quality Management Task Forces. In these calls, the Chairs and Staff of the ISQM 1,<sup>5</sup> ISQM 2,<sup>6</sup> ISA 220 and ISA 600 Task Forces discussed matters of mutual interest. In addition, the ISA 600 Task Force coordinated with the ISQM 1 and ISQM 2 Task Forces on certain matters to align the concepts and wording in those quality management standards with the wording in some of the requirements and application material of ED-600.
11. Given the close relationship between proposed ISA 220 (Revised)<sup>7</sup> and ED-600, the ISA 600 and ISA 220 Task Forces made sure there is appropriate linkage between the two standards, i.e., that the requirements and application material in ED-600 build on, and are consistent with, the principles and requirements in proposed ISA 220 (Revised). Among other matters, the Task Forces discussed the practical application and resulting effects of the revised definition of the engagement team and the responsibilities of the engagement partner (see paragraphs 18–20 below).

#### *ISA 315 (Revised 2019)<sup>8</sup>*

12. As a foundational standard, the ISA 600 Task Force made sure that the requirements and application material in ED-600 are consistent with the revisions in ISA 315 (Revised 2019). The Task Force focused on the special considerations relating to identifying and assessing the risks of material misstatement in an audit of group financial statements.

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<sup>5</sup> Proposed International Standard on Quality Management (ISQM) 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>6</sup> Proposed ISQM 2, *Engagement Quality Reviews*

<sup>7</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

## IESBA

13. The ISA 600 Task Force liaised with IESBA representatives and Staff to ensure that ED-600 is aligned with the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code). Matters discussed included the proposed revisions to the definition of engagement team, IESBA's Engagement Team – Group Audits Independence project,<sup>9</sup> and the paragraphs in ED-600 related to non-compliance with laws and regulations.

## Section 1 Guide for Respondents

The IAASB welcomes comments on all matters addressed in ED-600, but especially those identified in the Request for Comments section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. Respondents are also free to address only questions relevant to them. When a respondent agrees with proposals in ED-600, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.

## Section 2 Significant Matters

### Section 2-A – Public Interest Issues Addressed in ED-600

14. The table below sets out the key public interest issues identified by the IAASB and how they have been addressed in ED-600.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<b>Keeping the IAASB's standard on group audits fit for purpose</b>	<i>Scope of the Standard</i> Clarified the scope of the standard, through the introductory paragraphs and definitions and related application material, including whether, and how, ED-600 applies for: <ul style="list-style-type: none"><li>• Shared service centers;</li><li>• Entities with branches and divisions; and</li><li>• Non-controlled entities, including equity-accounted investees and investments carried at cost.</li></ul>	Paragraphs 2, 3 9(b), 9(k), and 11.

<sup>9</sup> The objectives of IESBA's Engagement Team – Group Audits Independence project are to (i) align the definition of the term "engagement team" in the IESBA Code with the revised definition of the same term in proposed ISA 220 (Revised) and (ii) revise the IIS so that they are robust, comprehensive and clear when applied in a group audit context, including with respect to independence for non-network component auditors.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
	<p><i>Linkages with Other Standards</i></p> <p>Clarified and reinforced in ED-600 that all ISAs need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330.<sup>10</sup></p>	Paragraphs 1, 12, 15, 18, 20, 21, 23, 24, 27, 28, 29, 31, 33, 47, 49, 53, 56 and 57.
	<p><i>Adaptability and Scalability</i></p> <p>Introduced a principles-based approach that is adaptable to a wide variety of circumstances, and scalable for audits of groups of different complexity, for example by:</p> <ul style="list-style-type: none"> <li>• Focusing the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement; and</li> <li>• Including separate sections throughout ED-600 to highlight the requirements and application material for circumstances when component auditors are involved.</li> </ul>	<p>Paragraphs 3, 4, 9(b), 24, 31 and 33.</p> <p>Separate sections in ED-600 for circumstances when component auditors are involved.</p>
	<p><i>Documentation</i></p> <p>Enhanced the documentation requirements and included application material to emphasize the linkage to the requirements in ISA 230<sup>11</sup> and to clarify what the group engagement team may need to document in different situations, including when there are restrictions on access to component auditor documentation.</p>	Paragraph 57

<sup>10</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>11</sup> ISA 230, *Audit Documentation*

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<b>Encouraging proactive management of quality at the engagement level</b>	<p><i>Managing and Achieving Quality in a Group Audit</i></p> <p>Clarified how the requirements in proposed ISA 220 (Revised) apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work.</p> <p>Throughout ED-600, separate sections are included for circumstances when component auditors are involved.</p>	Paragraphs 6, 12, 18, 20, 21 and 23.
	<p><i>Planning and Performing a Group Audit Engagement</i></p> <p>Focused the group engagement team's attention on identifying, assessing and responding to the risks of material misstatement of the group financial statements, and emphasized the importance of designing and performing procedures that are appropriate to respond to those assessed risks of material misstatement.</p>	Paragraphs 3, 4, 24, 31, 33, 34, 35, and 36.
	<p><i>Restrictions on Access to People and Information</i></p> <p>Clarified how to address restrictions on access to people and information in a group audit, including restrictions on access to component management, those charged with governance of the component, component auditors, or information at the components.<sup>12</sup></p>	Paragraphs 16 and 17.
	<p><i>Component Materiality</i></p> <p>Clarified how the concepts of materiality and aggregation risk apply in a group audit.</p>	Paragraphs 9(a), 9(e) and 29.

<sup>12</sup> The IAASB recognizes that ED-600 cannot enforce access to people and information, but that it can help by developing guidance for situations where access to people or information is restricted.

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Paragraphs in ED-600
<b>Fostering an appropriately independent and challenging skeptical mindset of the auditor</b>	<p><i>Fostering the Appropriate Exercise of Professional Skepticism</i></p> <p>Emphasized the importance of professional skepticism, including when:</p> <ul style="list-style-type: none"> <li>• Determining the direction, supervision and review of the component auditor's work; and</li> <li>• The group engagement team's evaluation of whether sufficient appropriate audit evidence has been obtained (including by component auditors) to provide a basis for forming an opinion on the group financial statements.</li> </ul>	Paragraphs 4, 5, 13, 23, 44, 45, 46, 49, 50 and 51.
<b>Reinforcing the need for robust communication and interactions during the audit</b>	<p><i>Robust Communications and Interactions Between the Group Engagement Team / Group Engagement Partner and Component Auditors</i></p> <p>Strengthened and clarified the application of proposed ISA 220 (Revised) in a group audit, including:</p> <ul style="list-style-type: none"> <li>• Communications between the group engagement team and component auditors, emphasizing the importance of two-way communications.</li> <li>• Various aspects of the group engagement team's interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group engagement team in the work of the component auditor.</li> </ul> <p>Throughout ED-600, separate sections are included for circumstances when component auditors are involved.</p>	Paragraphs 4, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 30, 32, 37, 38, 39, 40, 41, 43, 44, 45 46 and 48.

## Section 2-B – Linkages with Other Standards

- Many respondents to the ITC supported clarifying and reinforcing that all ISAs, when applicable, need to be applied in a group audit engagement through establishing stronger linkages to the other ISAs, in particular to proposed ISA 220 (Revised), ISA 315 (Revised 2019) and ISA 330. In its deliberations, the IAASB has focused on the unique aspects of a group audit engagement and the need to clearly articulate how the requirements in ED-600 build on requirements in the foundational standards. The IAASB was of the view that ED-600's requirements and application material should address special

considerations related to group audits and, therefore, should not repeat the requirements and application material in other ISAs.

16. To clarify the linkages with other standards and to clarify that all ISAs apply to an audit of group financial statements, the IAASB decided to:
  - Clarify that the ISAs apply to an audit of group financial statements, that ED-600 deals with special considerations in an audit of group financial statements and that the requirements and application material in ED-600 refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (see paragraph 1 of ED-600). Application material was added clarifying the linkage with proposed ISA 220 (Revised), proposed ISQM 1 and proposed ISQM 2.<sup>13</sup>
  - When applicable, included a reference to the foundational standard in the requirement or application material. In such cases the following construct is used: 'In applying ISA ...'
17. Paragraph 6 of ED-600 explains that when a requirement or responsibility has to be fulfilled by the group engagement partner or the group engagement team, the term "the group engagement partner shall ..." or "the group engagement team shall ..." is used. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term "the group engagement partner shall take responsibility for..." or "the group engagement team shall take responsibility for..." is used. Paragraph 6 of ED-600 is modeled after a similar paragraph in proposed ISA 220 (Revised).

#### *Proposed ISA 220 (Revised)*

18. As noted in paragraphs 6 above, the IAASB is also revising ISA 220. Proposed ISA 220 (Revised) contains, among other matters, enhanced and revised requirements and application material to clarify the role and responsibilities of the engagement partner, particularly the sufficient and appropriate involvement of the engagement partner throughout the audit, and to retain the emphasis on the engagement partner's responsibility for managing and achieving quality at the engagement level.
19. The IAASB considered the special considerations in applying ISA 220 (Revised) to audits of group financial statements and identified the following:
  - Definition of the engagement team. Proposed ISA 220 (Revised) includes a revised definition of engagement team. This revised definition includes individuals who perform audit procedures on the engagement, which would include component auditors in the case of a group audit. As noted in paragraph 11 above, the ISA 220 and ISA 600 Task Forces and IESBA's Staff and representatives have liaised on the revised definition. When ED-600 refers to the engagement team, it includes the group engagement team and all component auditors. Paragraphs 9(c) and 9(j) of ED-600 define component auditor and the group engagement team, respectively.

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<sup>13</sup> ED-600 is based on the versions of proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised) as presented to the IAASB in March 2020 <https://www.iaasb.org/meetings/iaasb-board-meeting-new-york-usa-2>. The IAASB targets the planned approval of these proposed standards in its September 2020 meeting. Subsequent versions of proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised) will be posted on the projects' meeting pages: <https://www.iaasb.org/consultations-projects/work-plan>.

- Leadership responsibilities for managing and achieving quality on a group audit. To highlight the importance of sufficient and appropriate involvement of the group engagement partner throughout the group audit, the IAASB determined that it was appropriate to add a requirement early in ED-600 (see paragraph 12 of ED-600).
  - Being able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence (see paragraph 18 of ED-600);
  - With respect to relevant ethical requirements (see paragraph 20 of ED-600):
    - Determining that component auditors have been made aware of relevant ethical requirements;
    - Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement; and
    - Obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement have been fulfilled;
  - With respect to engagement resources (see paragraph 21 of ED-600):
    - Determining that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and
    - Determining the relevance to the group audit of information that has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, and the effect of such information on the group audit; and
  - With respect to engagement performance, establishing that the group engagement partner takes responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work (see paragraph 23 of ED-600).
20. The IAASB included comprehensive application material that supports the special considerations as set out in paragraph 19 above.

## **Section 2-C – Separate Sections for Considerations When Component Auditors Are Involved**

21. In the development of ED-600, the IAASB considered the most appropriate placement for the requirements related to the involvement of component auditors. The IAASB discussed having all such requirements in a separate section or placing them throughout the proposed standard based on the nature of component auditor involvement at various phases of the group audit. In its deliberations, the IAASB noted several advantages of including a sub-section in each section of the standard that describes the requirements that apply when component auditors are involved.
22. The IAASB believes the advantages of this approach are that it:
- Helps to emphasize and clarify the interactions that are needed between the group engagement team and the component auditors throughout the different phases of the group audit.
  - Makes it clear that when component auditors are involved, they are an integral part of the engagement team.

- Provides scalability for circumstances where the group engagement team does not involve component auditors by making it easier to identify which requirements apply and which do not.

## **Section 2-D – Scope and Applicability of the Proposed Standard**

23. Respondents to the ITC expressed various concerns about the scope and applicability of extant ISA 600, including asking for greater clarity about whether, and how, extant ISA 600 applies in certain circumstances. A number of concerns relating to group audits also were highlighted by regulators and audit oversight bodies, including concerns about interpretations as to when extant ISA 600 does or does not apply.
24. Extant ISA 600 applies to audits of group financial statements, consistent with the title of the standard. In its deliberations on ED-600, the IAASB considered the input from respondents to the ITC and concluded that ED-600 should apply when the auditor is engaged to perform an audit of group financial statements, regardless of whether component auditors are involved. In addition, the IAASB determined that a consolidation process also was fundamental to the definition of group financial statements (see paragraphs 25–31 below). The IAASB also acknowledged that an ‘entry point’ into ED-600 that focused on the definition of group financial statements would necessitate a reconsideration of the definition of a component (see paragraphs 32–36 below).

### *Group Financial Statements*

25. The IAASB has included paragraph 2 in ED-600 to highlight that the proposed standard applies when the auditor has been engaged to audit group financial statements, which are defined in paragraph 9(k) of ED-600. This definition retains the notion that group financial statements include the financial information of more than one entity or business unit, similar to the notion in the extant ISA 600 definition of a group that a group always has more than one component.
26. The IAASB recognizes that the reference to ‘entities or business units’ in the definition of group financial statements may be viewed as somewhat broad, and that management may use other terms to describe the various economic units or business activities within the group. However, for purposes of ED-600, the IAASB believes that ‘entities or business units’ will be sufficiently understood because similar terms are used in extant ISA 600 and are commonly used in practice today (also see paragraph 28 below). Additional guidance could be provided as part of the implementation support materials (for example, in a frequently asked questions (FAQs) document) when the final standard is issued (see further discussion of implementation support activities in paragraphs 99-100 below).

### *Consolidation Process*

27. The definition of group financial statements in ED-600 includes the term ‘consolidation process.’ Given the importance of the term to the definition of group financial statements, and therefore the scope of ED-600 as described in paragraph 24 above, the IAASB has enhanced the description of consolidation process in paragraph 11 of ED-600 to include a reference to:
  - A consolidation process being ‘in accordance with the requirements of the applicable financial reporting framework’ with respect to the recognition, measurement, presentation and disclosure, of financial information of entities or business units in the group financial statements. The IAASB determined that this reference was needed because it is the requirements of the applicable financial reporting framework that management follows in preparing the group financial statements; and

- The aggregation of the financial information of branches or divisions (see paragraphs 28–29 below).
28. As indicated in paragraph 3 of ED-600, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions) or business activities, which are collectively referred to as entities or business units in ED-600. The IAASB noted that paragraph A2 of extant ISA 600 contemplates a group for which management aggregates the financial information of branches or divisions in preparing financial statements. Therefore, as described in paragraph A17 of ED-600, when branches or divisions of a single entity are aggregated for purposes of preparing the financial statements, including the elimination of interbranch or interdivisional transactions and balances, such aggregation is nearly indistinguishable from a consolidation of other entities in accordance with the requirements of the applicable financial reporting framework. In addition, consistent with paragraph 10(b) of extant ISA 600, a combination of entities or business units under common control continues to be included in the description of a consolidation process in ED-600.
29. With respect to branches or divisions, paragraph A17 of ED-600 recognizes that, in some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, paragraph A17 of ED-600 explains that, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11 of ED-600, the financial statements do not represent group financial statements and ED-600 does not apply.
30. The IAASB has added application material (see paragraphs A16 and A18 of ED-600) to further explain the consolidation process and indicate that the requirements of the applicable financial reporting framework may affect the determination of the financial information of entities or business units to be included in the group financial statements. The IAASB believes that this application material will be helpful in determining whether ED-600 would apply in a particular situation.
31. The IAASB has proposed these changes to the description of a consolidation process and the related application material to:
- Acknowledge the many different group structures in use today, as described in paragraph 3 of ED-600, and to provide terminology and guidance that is flexible enough to apply to evolving group structures; and
  - Provide a principles-based approach to the consideration of the different circumstances in which ED-600 would apply.

*Relationship Between the Definitions of Group Financial Statements and Component*

32. In the ITC, the IAASB noted that some stakeholders viewed the interaction of the requirements, definitions and application material in extant ISA 600 as limiting its flexibility. The IAASB therefore discussed the need for clarity about when ED-600 would apply (i.e., the ‘entry point’) and, when the revised standard applies, how group engagement teams may consider the structure of the group for purposes of planning and performing the group audit. The IAASB determined that clarity could be provided by revising the definitions of ‘group financial statements’ and ‘component,’ and describing the relationship between them.

33. The IAASB determined that it would be helpful for the definition of group financial statements (see paragraph 9(k) of ED-600) to focus on the various entities or business units comprising the group, and that would be included in the consolidation process.
34. The IAASB also concluded that ED-600 should acknowledge that a group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how management views the entities or business units comprising the group. In this regard, the IAASB understands that in practice many group engagement teams consider the group structure as a starting point, but the approach to the group audit may or may not align with that structure due to, for example, the use of shared service centers or the processing of various aspects of a class of transactions at different locations.
35. Accordingly, the IAASB has included a revised definition of a component in paragraph 9(b) of ED-600 that reflects the 'auditor's view' for purposes of planning and performing the group audit. The use of the terms 'location, function or activity' in this definition is intended to be flexible enough to cover the many ways in which the group engagement team might view the group structure in designing the most effective and efficient approach to planning and performing the group audit. In some circumstances, the group engagement team may approach the group audit by focusing on the way the entity is structured and organized (for example, according to its legal structure). Alternatively, the group engagement team may decide to approach the group audit by focusing on a combination of locations, functions or activities (for example, because of the structure of the group's information system with respect to the processing of transactions or the design and implementation of the system of internal control). Irrespective of the approach used, the group engagement team's consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group (see paragraph A12 of ED-600).
36. The IAASB has added paragraph 3 in ED-600 to clarify in the Scope section of the proposed standard that the way in which a group is organized, and the way in which management views the entities or business units comprising the group, may be different from the way in which the group engagement team plans and performs audit procedures for the group audit. The IAASB also has included application material (see paragraphs A4-A6 of ED-600) to further clarify this point and to include an example of how this may be applied in practice. Paragraphs A4 and A12 of ED-600 indicate that the group engagement team uses professional judgment in determining the components for which audit procedures will be performed.

#### *Scalability Considerations*

37. The IAASB notes that many audit engagements are subject to extant ISA 600 given that, as currently defined, a group always has more than one component. However, some concerns may exist about the application of ED-600 to smaller, less complex groups comprised of only a small number of entities or business units.
38. The IAASB notes that such engagements are nonetheless required to apply the requirements of the key underlying ISAs, including the enhanced risk assessment in ISA 315 (Revised 2019) and the focus on direction, supervision and review in proposed ISA 220 (Revised). In addition, for some of these engagements, the group engagement team may itself be able to perform the procedures necessary to identify, assess and respond to the risks of material misstatement of the group financial statements, without the need to involve component auditors. In these situations, the use of separate

sections in ED-600 to highlight the requirements that are applicable when component auditors are involved provides inherent scalability, as such requirements would not be relevant in the circumstances.

## **Section 2-E – Acceptance and Continuance, Including Restrictions on Access to People and Information**

### *Background*

39. The ITC noted that some inspection findings identified situations where auditors gave inadequate consideration to certain matters that may be relevant to the decision about whether to accept or continue a group audit engagement. Examples of matters that may not be adequately considered at the acceptance and continuation phase include:
- The ability to access people or information at the components; and
  - The ability to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence.
40. In response to the issues identified in the ITC and the proposed revisions to ISA 220, the IAASB enhanced the Acceptance and Continuance section of ED-600. For the changes made to the Acceptance and Continuance Section to align with proposed ISA 220 (Revised), see paragraphs 18-20 above.

### *Sufficient Appropriate Audit Evidence*

41. When the group engagement partner makes a decision to accept a new group audit engagement, or continue with an existing engagement, extant ISA 600 requires that, in applying ISA 220, the group engagement partner determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. Extant ISA 600, also notes that for this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to identify components that are likely to be significant components.
42. The IAASB is of the view that this requirement is still relevant and that it is the overarching requirement for the Acceptance and Continuance section. However, given the new approach to planning and performing a group audit engagement (see section 2-F below), the reference to significant components has been removed and the IAASB added a requirement for the group engagement partner to make a preliminary determination about whether to involve component auditors (see paragraph 13 of ED-600). The IAASB also added a requirement and application material for situations when, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained. In such cases, the group engagement partner shall consider the possible effects on the group audit (see paragraph 14 of ED-600).

### *Restrictions on Access to People and Information*

43. In its deliberations, the IAASB noted that there are several different types of access issues that may occur in a group audit. The different types of access issues require a different approach from the group engagement team, and it is therefore important to differentiate among them. The IAASB recognized that ED-600 can help address these issues through application material describing ways

to overcome restrictions on access to people or information, but cannot enforce access to people and information.

44. Therefore, the IAASB decided to differentiate between restrictions on access to information and people that are outside the control of group management (see paragraph 16 of ED-600) and those that are imposed by group management (see paragraph 17 of ED-600).
45. Respondents to the ITC and input from outreach with other stakeholders indicated that application material was needed on how the group engagement team may be able to overcome various access issues. Matters noted included when the group has a non-controlling interest in an entity that is accounted for by the equity method and group management and the group engagement team do not have access to component management, those charged with governance of the component, or the component auditor.
46. In response to these comments, the application material in ED-600 includes application material on the following matters:
  - Paragraph A27 of ED-600 explains that restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.
  - Paragraph A28 of ED-600 highlights that access to people and information can be restricted for many reasons and includes a few examples of restrictions. The IAASB purposely kept this application material at a high-level and only included a few examples to avoid the perception that all restrictions are listed in this paragraph.
  - Paragraph A29 of ED-600 explains how the group engagement team may overcome possible restrictions in various situations. Given the interest of stakeholders on this topic, the IAASB included several examples, including on access restrictions related to equity-accounted investments. When investments are accounted for in accordance with the equity method, group management may not have the ability to direct management of the component to cooperate with the group engagement team. The group engagement team may also not have access to those charged with governance of the component or the auditor that was appointed by the component.
  - Paragraph A30 of ED-600 focuses on the effects when it is not possible to overcome restrictions on access to people and information. This paragraph highlights that, in such circumstances, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may then communicate with regulators, listing authorities or others about the restrictions.

## **Section 2-F – Planning and Performing a Group Audit Engagement**

47. The ITC included the IAASB's initial views on how to enhance the planning and performance of a group audit engagement. It was noted that planning a group audit based on the identification of components (and identification of those components that are significant) may not always result in appropriate involvement of the group engagement team in the assessment of the risks of material misstatement at the group financial statement level, and the design and performance of appropriate responses to those

risks. The ITC included several suggestions about how to enhance extant ISA 600, which were generally supported by respondents to the ITC.

48. Given this support, the IAASB continued to develop a new approach for planning and performing a group audit engagement. The new approach is referred to as the risk-based approach, and in developing this approach the IAASB had the following objectives:
- Greater alignment with the requirements in ISA 315 (Revised 2019) and ISA 330;
  - A greater focus on the group engagement team's responsibility, with the assistance of component auditors as needed, to:
    - Identify and assess the risks of material misstatement at the group financial statement level and assertion level for the group financial statements, and
    - Design and perform further audit procedures, in accordance with ISA 330; and
  - A greater focus on planning an appropriate approach to obtaining sufficient appropriate audit evidence (i.e., not just defaulting to "an audit" of the component financial information). The group engagement team's focus should be on whether and how the assessed risks of material misstatement of the group financial statements are addressed through work performed at the group level by the group engagement team or through work performed on components, including by component auditors.

#### *Risk-Based Approach for a Group Audit Engagement*

49. ISA 315 (Revised 2019) requires the auditor to understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and to identify and assess the risks of material misstatement. ISA 330 requires the auditor to design and implement responses to address the assessed risks. In a group audit, the group engagement team may not be able to do this by itself and therefore may need to involve component auditors.
50. The risk-based approach for a group audit can be characterized as thinking about what, how and by whom and where, work is to be performed, for example:
- What – determining significant classes of transactions, account balances or disclosures in the group financial statements to identify and assess risks of material misstatement of the group financial statements at the assertion level;
  - How – determining the most appropriate audit strategy (e.g., centralized or decentralized testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and
  - By whom and where – determining whether the group engagement team or component auditors will obtain the audit evidence, and where procedures need to be performed to obtain audit evidence based on the group engagement team's view of the group structure, in response to the assessed risks of material misstatement.
51. ED-600 includes a new appendix (see Appendix 1 to ED-600) that describes the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit. This appendix highlights that the involvement of component auditors is an iterative process. For example, before accepting or continuing the engagement, the group engagement team makes a preliminary determination whether component auditors will be involved

in the group audit and the group engagement team may change that determination at a later stage based on the information obtained.

52. When component auditors are involved, the group engagement team remains responsible for the identification, assessment and responses to the risks of material misstatement of the group financial statements. The group engagement team therefore needs to direct and supervise the work performed by component auditors and review their work. The nature, timing and extent of the direction, supervision and review, including two-way communication between the group engagement team and the component auditor, depends on the facts and circumstances of the engagement.
53. Paragraphs 54 – 65 below explain how the risk-based approach is applied throughout the different phases of the group audit.

#### Obtaining an Understanding of the Group and Its Environment and the Group's System of Internal Control

54. The foundation of the risk-based approach is the group engagement team's understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control. Special considerations in applying ISA 315 (Revised 2019) to an audit of group financial statements (see paragraph 24 of ED-600) primarily relate to, and are focused on, the additional complexities faced by a group engagement team when auditing a group, for example:
- With respect to the group and its environment, obtaining an understanding is often more complex due to the wide variety of group structures and businesses that may exist across multiple geographical locations or jurisdictions. The way the group is managed may also add complexities, particularly if there are multiple lines of business, which may be in different industries (e.g., a captive insurance company for a manufacturing entity).
  - With respect to the applicable financial reporting framework, there may be different accounting policies and practices across the entities or business units that comprise the group.
  - With respect to the group's system of internal control, there:
    - May be controls that operate in a common manner across multiple entities or business units – see Common Controls and Centralized Activities Section below.
    - May be centralized activities relevant to financial reporting (e.g., in a shared service center) – see Common Controls and Centralized Activities Section below.
    - Is a consolidation process, which likely requires additional audit effort when the consolidation process is more complex due to a significant amount of intercompany transactions or elimination entries, or when the group uses consolidation software that interfaces with multiple general ledger systems from different entities or business units.
55. When the group engagement team involves component auditors by assigning the design and performance of risk assessment procedures, the group engagement team considers the results of those procedures in identifying and assessing risks of material misstatement (see paragraph 25 of ED-600). The group engagement team also communicates with component auditors matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements (see paragraph 26 of ED-600).

## Identifying and Assessing Risks of Material Misstatement

56. The IAASB is of the view that the risk-based approach in ED-600 better focuses the group engagement team on determining the significant classes of transactions, account balances and disclosures in the group financial statements, and on identifying and assessing the related risks of material misstatement of the group financial statements, compared to a focus on significant components in extant ISA 600. The approach also more closely aligns with the principles in ISA 315 (Revised 2019).
57. Under the risk-based approach, the group engagement team takes responsibility for the identification and the assessment of the risks of material misstatement (see paragraph 31 of ED-600). When the group engagement team involves component auditors in the risk assessment procedures or identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team is required to consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements (see paragraph 32 of ED-600).

## Responding to the Assessed Risks of Material Misstatement

58. After the group engagement team has assessed the risks of material misstatement of the group financial statements, with the assistance of component auditors as needed, the group engagement team determines the most appropriate strategy to obtain sufficient appropriate audit evidence, and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement in accordance with ISA 330.
59. The group engagement team may decide to use different approaches, or a combination of approaches, to gather audit evidence about classes of transactions, account balances and disclosures, including deciding where further audit procedures need to be performed (at which components) and who will perform the further audit procedures (the group engagement team, component auditors or a combination) to address the assessed risks of material misstatement.
60. When the group engagement team assigns the design and performance of further audit procedures to component auditors, the group engagement team communicates with component auditors matters that are relevant for this purpose. The group engagement team may request the component auditor to:
- Design and perform further audit procedures on the entire financial information of the component;
  - Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
  - Perform specific further audit procedures as identified and communicated by the group engagement team.
61. When the group engagement team requests the component auditor to perform further audit procedures on the entire financial information of the component, or design and perform further audit procedures on one or more classes of transactions, account balances or disclosures, the group engagement team may request the component auditor to assist in determining the nature, timing and extent of further audit procedures to be performed. The group engagement team may do so because component auditors may have a more in-depth knowledge of the component or, for larger group audits, it may not be practical for the group engagement team to determine the nature, timing and

extent of further audit procedures to be performed. Furthermore, the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component (see paragraphs A98 and A100).

62. When component auditors assist the group engagement team in the design and performance of further audit procedures, the group engagement team remains responsible for the nature, timing and extent of further audit procedures to be performed (see paragraph 33 of ED-600).
63. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of the further audit procedures performed by component auditors (see paragraph 38 of ED-600).

#### Fraud, Going Concern and Related Parties

64. Extant ISA 600 requires the group engagement team, or a component auditor on its behalf, to perform an audit of the financial information of the component in certain circumstances. When an audit of the financial information of a component is performed by a component auditor, the component auditor is responsible for the identification, assessment and response to risks of material misstatement at the component, including with respect to fraud, going concern and related parties.
65. The IAASB added requirements and application material related to understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control and responding to the assessed risks of material misstatement (see paragraphs 27, 28, 41, A72 and A80 of ED-600) to clarify the responsibilities related to fraud, going concern and related parties under the risk-based approach when component auditors are involved.

#### Key Similarities and Enhancements

66. The IAASB realizes that the risk-based approach to planning and performing a group audit has a different focus than the approach in extant ISA 600 and that the changes may have a significant impact on practice. Given the wide variation in the structure of group entities, the IAASB also recognizes that many group engagement teams already focus on identifying and assessing risks at the group level and determining that the planned scope of work appropriately responds to those risks. The following table sets out some key similarities between extant ISA 600 and ED-600 and enhancements in ED-600:

Similarities	Enhancements
The objective remains to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements.	Focus on identifying and assessing risks of material misstatement of the group financial statements and determining that the planned scope of work appropriately responds to those assessed risks, rather than the current approach whereby the scope of the work is driven primarily by the identification of components and determination of their significance.

Understanding the group and its environment remains a fundamental part of the standard.	Greater focus on the group engagement team's responsibility, with the assistance of component auditors as needed, to obtain an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control, and to identify, assess and respond to the risks of material misstatement.
The involvement of component auditors remains a key aspect of group audits, recognizing that component auditors can be, and often are, involved in all phases of a group audit engagement.	Greater focus on the group engagement team's involvement in the work of component auditors and the group engagement partner's responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work.

#### *Communications Between the Group Engagement Team and Component Auditors*

67. In the ITC, it was noted that the communication requirements in extant ISA 600 are not specific enough to result in sufficient and appropriate communication between component auditors and the group engagement team during the planning and performance of the group audit. Given this and the importance of two-way communications between the group engagement team and component auditors, the IAASB determined that it was appropriate to include a requirement for the group engagement team to communicate with component auditors about the component auditor's responsibilities and the group engagement team's expectations (see paragraph 43 of ED-600). These communications need to take place at the appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. ED-600 also includes a list of matters that component auditors should communicate to the group engagement team (see paragraph 44 of ED-600)
68. The IAASB also included application material, using the application material in ISA 260 (Revised)<sup>14</sup> as a basis, to provide further explanation about timely communications in the context of a group audit. For example:
- Paragraphs A106 and A107 of ED-600 describe factors that may contribute to effective two-way communication.
  - Paragraphs A108 and A109 of ED-600 provide guidance on the form of communications, including factors that may influence the form of communication; and
  - Paragraph A110 of ED-600 describes the appropriate timing for communications.
69. Paragraph A111 of ED-600 was added in response to the issue identified in, and comments from respondents to, the ITC with respect to communications about non-compliance or suspected non-compliance with laws and regulations.

<sup>14</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

## Section 2-G – Common Controls and Centralized Activities

70. Extant ISA 600 includes the concept of group-wide controls, which were defined as: ‘*Controls designed, implemented and maintained by group management over group financial reporting.*’ The IAASB noted that some auditors interpret the definition as being:
- Controls over group financial reporting, including consolidation; or
  - Controls over processes that are the same across the group or a part of the group (e.g., controls that are intended to operate in a common manner across multiple entities or business units).
71. The IAASB also discussed the role that group-wide controls play in responding to assessed risks of material misstatement and noted that auditors sometimes place undue reliance on these controls, for example:
- Relying on group-wide controls without testing them.
  - Relying on group-wide controls when the extent of the testing of those controls has not resulted in sufficient appropriate audit evidence (e.g., to reduce the extent of substantive procedures). For example, the group engagement team may have tested group-wide controls without obtaining a sufficient understanding about how the controls are designed and implemented throughout the group in addressing risks of material misstatement.
  - Relying on group-wide controls that are not sufficiently precise (i.e., not designed in a way that is responsive to an assessed risk of material misstatement).
72. Given the matters noted above, the IAASB decided not to refer to group-wide controls in ED-600 and to address controls in a group audit more broadly. Even though ED-600 does not include the concept of group-wide controls, much of the related application material in extant ISA 600 has been retained. For example, Appendix 3 includes examples of controls that may be helpful in obtaining an understanding of the group’s system of internal control in a group environment and particularly focuses on controls over group financial reporting, including controls over the consolidation process.
73. In addition, the IAASB included application material on the following special considerations:
- Commonality of controls (see paragraphs A59–A63 of ED-600); and
  - Centralized activities relevant to financial reporting (see paragraphs A64–A65 of ED-600).

### *Commonality of Controls*

74. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management that operate using the same IT system and that are implemented across all entities or business units in the group. ED-600 therefore includes application material:
- Explaining why obtaining an understanding of common controls may be important;
  - On how the group engagement team may determine the commonality of a control across the group;
  - Highlighting that judgment is often needed to determine whether a control is common or not.

### *Centralized Activities*

75. In some group structures, centralized activities may have been established that process information or perform other activities for multiples entities or business units within the group. For example, financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units.
76. The IAASB decided to use the broader term 'centralized activities' to reflect comments that centralized activities may be performed at a shared service center, but also in an entity or business unit that may not be considered a shared service center. In addition, the IAASB was of the view that, given the wide variety of group structures and the continuous evolvement of these structures, it is better to use a broader term to ensure the standard remains fit for purpose.
77. In planning and performing a group audit engagement, the group engagement team may facilitate the coordination of audit procedures at a centralized location or activity that are sufficient to provide the audit evidence necessary to support both the group audit and the audits of other entities within the group. In addition, there may be circumstances when audit evidence obtained at a centralized location or activity is necessary to enable a component auditor to perform and conclude on further audit procedures assigned to the component auditor by the group engagement team. The IAASB is aware that these practical considerations are common in group audits today but notes that such considerations are not directly relevant to the group engagement team's objective of obtaining sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. The IAASB proposes to develop FAQs to acknowledge these circumstances as part of the implementation support materials.

### **Section 2-H – Materiality**

78. Respondents to the ITC, across a range of respondent groups, called for more guidance on applying the concepts of component materiality and component performance materiality in a group audit, in particular in relation to the concept of aggregation risk. Regulators in particular noted that the concept of aggregation risk is not clearly defined in the standards and not well understood, and therefore it will be important to address aggregation risk and provide guidance for group engagement teams on component materiality considerations in ED-600.

### *Aggregation Risk*

79. Extant ISA 600 does not define aggregation risk. However, paragraph A43 of extant ISA 600 describes aggregation risk as follows, consistent with ISA 320:<sup>15</sup>

To reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds materiality for the group financial statements as a whole, component materiality is set lower than materiality for the group financial statements as a whole. Different component materiality may be established for different components. Component materiality need not be an arithmetical portion of the materiality for the group financial statements as a whole and, consequently, the aggregate of component materiality for the different components may exceed the materiality for the group financial statements as a whole.

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<sup>15</sup> ISA 320, *Materiality in Planning and Performing an Audit*

80. Given the calls for greater clarity about this concept, the IAASB has added a definition of aggregation risk in ED-600 (see paragraph 9(a) of ED-600). Paragraph A11 of ED-600 indicates that aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Therefore, broadly speaking, aggregation risk increases as the number of components increases at which audit procedures are performed separately, either by component auditors or other members of the engagement team.

#### *Component Performance Materiality*

81. In accordance with ISA 320, performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole (i.e., to address aggregation risk). The group engagement team sets performance materiality at the group financial statement level (i.e., group performance materiality), but also needs to determine a materiality amount for purposes of performing procedures on disaggregated component financial information.
82. The terms 'component materiality' and 'component performance materiality' are both used in extant ISA 600. Under the risk-based approach in ED-600, there is neither a requirement for the group engagement team to identify significant components, nor a requirement for an audit of those significant components. Rather, the group engagement team determines an appropriate approach to obtain sufficient appropriate audit evidence to address assessed risks of material misstatement of the group financial statements, which may and often will involve audit procedures being performed at the component level.
83. Given the risk-based approach in ED-600, the IAASB determined that the materiality amount to be used in planning and performing audit procedures on the disaggregated financial information of a component for purposes of the group audit is most appropriately referred to as 'component performance materiality' and has included a definition of that term (see paragraph 9(e) of ED-600).
84. The group engagement team determines component performance materiality for each component at which audit procedures are to be performed and communicates that amount to component auditors when they are involved in planning and performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). The IAASB also added application material (see paragraph A75 of ED-600) to describe the factors the group engagement team may take into account in setting component performance materiality. Importantly, these factors focus on matters that affect aggregation risk, i.e., the extent of disaggregation across components, and expectations about the nature, frequency and magnitude of misstatements in component financial information.

#### *'Clearly Trivial' Threshold*

85. Paragraph 21(d) of extant ISA 600 requires the group engagement team to determine the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. ED-600 continues to require the group engagement team to determine this threshold and communicate it to component auditors when they are involved in planning or performing further audit procedures at the component (see paragraphs 29 and 30 of ED-600). In addition, to address issues identified by regulators and audit oversight bodies, this threshold cannot exceed the threshold established at the group level (see paragraph 29(b) of ED-600).

## Section 2-I – Documentation

86. The IAASB noted the issues identified in the ITC with respect to documentation for group audit engagements, along with the comments and suggestions provided by respondents to the ITC. In its deliberations, the IAASB discussed the need in particular for additional guidance on:
- Documentation of significant matters related to restrictions on access to people or information, and how such matters were addressed;
  - Documentation needed to evidence the nature, timing and extent of the group engagement team's direction and supervision of the component auditors, and the review of their work; and
  - Component auditor documentation that may need to be included in the group engagement team's file.
87. Based on its discussions and input from stakeholders, the IAASB has enhanced the documentation requirements (see paragraph 57 of ED-600). Importantly, the IAASB noted that, as for any audit engagement, the audit documentation for a group audit is subject to the requirements in ISA 230. The IAASB also noted that the audit documentation for a group audit engagement includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file.
88. Paragraph 50(a) of extant ISA 600 requires the group engagement team's audit documentation to include an analysis of components, indicating those that are significant, and the type of work to be performed on the financial information of the components. Because ED-600 no longer has a requirement to identify significant components, the extant requirement has been replaced with a requirement to document the group engagement team's determination of components for purposes of planning and performing the group audit (see paragraph 57(b) of ED-600). Also see the discussion about the group engagement team's determination of components in paragraphs 35-36 above.
89. Paragraph 50(b) of extant ISA 600 requires documentation of the nature, timing and extent of involvement in the work performed by component auditors. The IAASB has revised this requirement (see paragraph 57(d) of ED-600) to focus on the group engagement team's direction, supervision and review of component auditors, consistent with other changes throughout ED-600 to align with the principles and requirements in proposed ISA 220 (Revised).
90. In response to requests for additional guidance on documentation, the IAASB has expanded the application material. In developing the revised application material, the IAASB noted that the group engagement team has a responsibility to determine that the documentation for the group audit engagement meets the requirements of ISA 230.
91. The IAASB also discussed whether guidance could be provided regarding component auditor documentation that may need to be included in the group engagement team's audit file. Paragraph 57(e) of ED-600 requires the audit documentation to include matters related to communication with component auditors, including the matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 44 of ED-600. Beyond the matters already addressed in paragraph 57(e) of ED-600, the IAASB determined that providing examples of other matters might be viewed as incomplete in view of the many different circumstances encountered in group audits. Accordingly, paragraph A124 of ED-600 indicates that the group engagement team may determine that it is appropriate to include relevant parts of the component auditor's documentation in

the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). However, the extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

92. With respect to guidance on the documentation of the direction and supervision of component auditors and the review of their work, the application material refers to ISA 300,<sup>16</sup> which requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members (which includes component auditors in a group audit) and the review of their work (see paragraph A125 of ED-600). The IAASB also has added examples of documentation of the group engagement team's involvement in the work of component auditors (see paragraph A126 of ED-600).
93. Additional complexities and challenges may arise with respect to audit documentation in a group audit engagement when access to component auditor documentation is restricted (see paragraph A129 of ED-600). The importance of this issue has been reaffirmed through ongoing outreach with regulators and other stakeholders. Accordingly, the IAASB has added application material to address these circumstances (see paragraph A130 of ED-600).
94. Paragraph A130 of ED-600 indicates that, when the group engagement team determines that it may be appropriate to include relevant parts of the component auditor documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.
95. The IAASB acknowledges that audit documentation for a group audit engagement is an important public interest issue. Therefore, in addition to input on the requirements and application material with respect to documentation in ED-600 (see question 11 in Section 3 below), the IAASB encourages respondents to provide input about whether additional guidance would be helpful and, if so, suggestions for such additional guidance.

## **Section 2-J – Other Matters**

### *Professional Skepticism*

96. In the Introduction section of ED-600, the IAASB highlights the importance of professional skepticism and professional judgment in performing a group audit engagement. Paragraph 5 of ED-600 highlights that the exercise of professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. This introductory material is further supported by application material that highlights that other ISAs, such as proposed ISA 220 (Revised), ISA 315 (Revised 2019), ISA 540 (Revised)<sup>17</sup>

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<sup>16</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>17</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.

97. In addition to the paragraph in the Introduction, paragraphs 49–51 of ED-600 require the group engagement team to “stand back,” prior to forming a group audit opinion, and evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors. Also, paragraphs 45–46 of ED-600 require the group engagement team to “stand back” and evaluate whether the communications with component auditors are adequate for the group engagement team’s purposes. The IAASB believes that including these requirements will assist in supporting the exercise of professional skepticism by the engagement partner and other members of the group engagement team.

### *Appendices*

98. The IAASB agreed to make the following changes to the appendices in ED-600:

- Appendix 1 of ED-600 was added to provide additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.
- Appendix 3 of ED-600 has been aligned with Appendix 3 in ISA 315 (Revised 2019). Appendix 3 in ISA 315 (Revised 2019) explains the components of internal control as well as the limitations of the entity’s system of internal control. Given this alignment, the IAASB changed the title of the appendix and the introductory wording and added, where needed, additional examples of controls that may be helpful in obtaining an understanding of the group’s system of internal control in a group environment.
- Appendix 4 of ED-600 has been aligned with the wording in ISA 315 (Revised 2019). In addition, the events or conditions have been linked to inherent risk factors and have been presented similar to Appendix 2 of ISA 315 (Revised 2019).
- The IAASB discussed Appendices 4 and 5 of extant ISA 600 and concluded as follows:
  - Appendix 4 of extant ISA 600, which provides examples of matters that may be included in the component auditor’s conformation to the group engagement team, has not been included in ED-600. The IAASB noted that practice has evolved from the time that extant ISA 600 was issued and many firms have created their own templates for communications with component auditors.
  - The IAASB was of the view that the requirements and application material in ED-600 are organized more clearly and therefore there is no longer a need for Appendix 5, which summarizes the matters that are required by extant ISA 600 to be included in the group engagement team’s letter of instruction, and additional matters that may be included.

The IAASB did discuss, however, that the guidance in these appendices may still be considered useful and concluded that such guidance could be repurposed outside of ED-600 as part of implementation support materials when the final revised standard is issued.

### *Implementation Support Activities*

99. Respondents to the ITC often cited matters for which additional implementation guidance or examples could be provided outside of the final revised standard. During the course of its deliberations, the IAASB also identified a number of areas for which implementation support may be helpful.
100. The IAASB is committed to undertaking activities to support awareness, understanding and effective implementation of the revised standard once finalized. This may include a first-time implementation guide, FAQs, webinars and other materials and activities as needed. The IAASB will also liaise and coordinate, as necessary, with others (including national standard-setters and IFAC) in relation to other needs for guidance to support the revised standard.

### *Conforming and Consequential Amendments*

101. The IAASB is proposing a number of conforming and consequential amendments arising from ED-600. The proposed changes have been presented in marked text to the relevant paragraphs of the various standards. Only the paragraphs that are being proposed to be amended, or that are needed to provide context for the proposed amendments, are provided. In many cases, the changes relate to aligning the terminology or wording with ED-600.

#### **Proposed ISA 220 (Revised) – Quality Management for an Audit of Financial Statements**

102. The definition of group engagement partner in paragraph 7(h) of extant ISA 600 includes the following with respect to joint auditors:

Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

103. The IAASB determined that the involvement of joint auditors can apply to any audit engagement, and therefore is best addressed in proposed ISA 220 (Revised). However, the IAASB noted that this proposed change to proposed ISA 220 (Revised) was not exposed for public comment as a part of that proposed standard. The IAASB therefore determined that including the proposed change to the application material to proposed ISA 220 (Revised) as a consequential amendment arising from ED-600 would be appropriate to solicit public comment on the matter.

#### **ISA 300 – Planning an Audit of Financial Statements**

104. Paragraph 16 of extant ISA 600 requires the group engagement partner to review the overall group audit strategy and group audit plan. In its discussions on ED-600, the IAASB believed it was inconsistent for this requirement to apply to a small, non-complex group audit engagement (such as a group with only two entities or business units that operates in a single line of business), but not for a large, complex single-location audit because there is no corresponding requirement for the engagement partner in ISA 300. Therefore, the IAASB concluded that this requirement should apply to all audit engagements, and has proposed a consequential amendment as paragraph 11A to ISA 300.

## ISA 402 – Audit Considerations Relating to An Entity Using a Service Organization

105. The IAASB is proposing to change the reference to ISA 600 in paragraph A19 of ISA 402 to instead refer to proposed ISA 220 (Revised). The IAASB determined that the application material in proposed ISA 220 (Revised) is relevant for, and therefore may be useful with respect to, the user auditor's direction and supervision of another auditor, and the review of that auditor's work.

### Section 3 Request for Comments

Respondents are asked to comment on the clarity, understandability and practicality of application of the requirements and related application material of ED-600. In this regard, comments will be most helpful if they are identified with specific aspects of ED-600 and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement.

#### Overall Questions

1. With respect to the linkages to other standards:
  - (a) Does ED-600 have appropriate linkages to other ISAs and with the proposed ISQMs?
  - (b) Does ED-600 sufficiently address the special considerations in a group audit with respect to applying the requirements and application material in other relevant ISAs, including proposed ISA 220 (Revised)? Are there other special considerations for a group audit that you believe have not been addressed in ED-600?
2. With respect to the structure of the standard, do you support the placement of sub-sections throughout ED-600 that highlight the requirements when component auditors are involved?
3. Do the requirements and application material of ED-600 appropriately reinforce the exercise of professional skepticism in relation to an audit of group financial statements?

#### Specific Questions

4. Is the scope and applicability of ED-600 clear? In that regard, do you support the definition of group financial statements, including the linkage to a consolidation process? If you do not support the proposed scope and applicability of ED-600, what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable).
5. Do you believe the proposed standard is scalable to groups of different sizes and complexities, recognizing that group financial statements, as defined in ED-600, include the financial information of more than one entity or business unit? If not, what suggestions do you have for improving the scalability of the standard?
6. Do you support the revised definition of a component to focus on the 'auditor view' of the entities and business units comprising the group for purposes of planning and performing the group audit?
7. With respect to the acceptance and continuance of group audit engagements, do you support the enhancements to the requirements and application material and, in particular, whether ED-600 appropriately addresses restrictions on access to information and people and ways in which the group engagement team can overcome such restrictions?

8. Will the risk-based approach result in an appropriate assessment of the risks of material misstatement of the group financial statements and the design and performance of appropriate responses to those assessed risks? In particular, the IAASB is interested in views about:
  - (a) Whether the respective responsibilities of the group engagement team and component auditors are clear and appropriate?
  - (b) Whether the interactions between the group engagement team and component auditors throughout the different phases of the group audit are clear and appropriate, including sufficient involvement of the group engagement partner and group engagement team?
  - (c) What practical challenges may arise in implementing the risk-based approach?
9. Do you support the additional application material on the commonality of controls and centralized activities, and is this application material clear and appropriate?
10. Do you support the focus in ED-600 on component performance materiality, including the additional application material that has been included on aggregation risk and factors to consider in determining component performance materiality?
11. Do you support the enhanced requirements and application material on documentation, including the linkage to the requirements of ISA 230? In particular:
  - (a) Are there specific matters that you believe should be documented other than those described in paragraph 57 of ED-600?
  - (b) Do you agree with the application material in paragraphs A129 and A130 of ED-600 relating to the group engagement team's audit documentation when access to component auditor documentation is restricted?
12. Are there any other matters you would like to raise in relation to ED-600?

### **Request for General Comments**

13. The IAASB is also seeking comments on the matters set out below:
  - (a) **Translations**—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-600.
  - (b) **Effective Date**—Recognizing that ED-600 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.

### **Invitation for Field Testing**

The IAASB recognizes that many audits today are audits of group financial statements, ranging from audits of the world's largest and most complex entities to audits of smaller groups with only a few entities or business units. Therefore, ED-600 will likely be of particular interest for the audit practices of firms of all

sizes. Accordingly, the IAASB encourages field testing<sup>18</sup> of the proposals by firms, and welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to this ED.

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<sup>18</sup> The IAASB did not believe that a consultation paper, field testing or a roundtable was needed before approval of ED-600. However, the IAASB recognizes that some firms may choose to undertake field testing to inform their response to ED-600. Field testing may take different forms and may focus on all or certain phases of a group audit, or on specific requirements of ED-600, and may be executed at different levels. Field testing is not required in order to respond to ED-600 but is recognized in terms of the additional information and different perspectives that may be obtained in this manner.

# PROPOSED INTERNATIONAL STANDARD ON AUDITING 600 (REVISED)

## SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)

(Effective for audits of financial statements for periods  
beginning on or after [DATE])

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## Introduction

### Scope of this ISA

1. The International Standards on Auditing (ISAs) apply to an audit of group financial statements. This ISA deals with special considerations that apply to an audit of group financial statements, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA refer to, or expand on, how other relevant ISAs are to be applied in relation to an audit of group financial statements (a group audit), in particular proposed ISA 220 (Revised),<sup>1</sup> ISA 315 (Revised 2019),<sup>2</sup> and ISA 330.<sup>3</sup> (Ref: Para. A1–A2)
2. This ISA applies when the auditor has been engaged to audit group financial statements. Group financial statements, as defined, include the financial information of more than one entity or business unit. A key factor in determining whether financial statements are group financial statements is whether financial information is prepared through a consolidation process as described in paragraph 11.
3. A group may be organized in various ways. For example, a group may be structured or organized by geography, legal or other entities, business or economic units (including branches or divisions), or business activities, which are collectively referred to as “entities or business units” in this ISA. The group engagement team may plan and perform an audit of group financial statements based on the entities or business units as viewed by group management. Alternatively, the group engagement team may determine that it is effective and more efficient to obtain audit evidence by planning and performing the group audit based on locations, functions or activities that are not necessarily aligned with how group management views the entities or business units comprising the group. This ISA uses the term “component” to refer to the manner in which the group engagement team views the group structure for purposes of planning and performing audit procedures for the group audit. (Ref: Para. A3–A6)
4. This ISA highlights the responsibility of the group engagement team to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. This ISA also recognizes that component auditors can be, and often are, involved in all phases of the group audit, and in particular to assist the group engagement team in identifying, assessing and responding to the risks of material misstatement of the group financial statements. Accordingly, this ISA requires sufficient and appropriate involvement by the group engagement team in the work of component auditors and emphasizes the importance of two-way communication between the group engagement team and component auditors. In addition, this ISA explains the matters that the group engagement team takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A7–A8, Appendix 1)
5. In accordance with ISA 200,<sup>4</sup> the engagement team is required to plan and perform the group audit with professional skepticism and to exercise professional judgment. The appropriate exercise of

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<sup>1</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*. All references to proposed ISA 220 (Revised) are to the version presented to the IAASB in March 2020.

<sup>2</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

<sup>3</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>4</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 15–16 and A20–A24

professional skepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional skepticism throughout the group audit engagement. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism. (Ref: Para. A9-A10)

6. When this ISA expressly intends that a requirement or responsibility be fulfilled by the group engagement partner or the group engagement team, the term “the group engagement partner shall ...” or “the group engagement team shall ...” is used. In these circumstances, the group engagement partner or group engagement team may need to obtain information from the firm or other members of the engagement team to fulfill the requirement. When the group engagement partner or the group engagement team is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors, the term “the group engagement partner shall take responsibility for...” or “the group engagement team shall take responsibility for...” is used. Nevertheless, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.

## Effective Date

7. This ISA is effective for audits of group financial statements for periods beginning on or after December 15, 20XX.

## Objectives

8. The objectives of the auditor are to:
  - (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;
  - (b) Identify and assess the risks of material misstatement of the group financial statements, and to plan and perform further audit procedures to appropriately respond to those assessed risks;
  - (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit engagement, including communicating clearly about the scope and timing of their work, and in evaluating the results of that work; and
  - (d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements.

## Definitions

9. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A11)

- (b) Component – A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A12)
  - (c) Component auditor – An auditor who, at the request of the group engagement team, performs audit procedures related to a component for purposes of the group audit. A component auditor is a part of the engagement team.<sup>5</sup> (Ref: Para. A13–A14)
  - (d) Component management – Management responsible for a component. (Ref: Para. A15)
  - (e) Component performance materiality – An amount set by the group engagement team to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
  - (f) Group – A reporting entity for which group financial statements are prepared.
  - (g) Group audit – The audit of group financial statements.
  - (h) Group audit opinion – The audit opinion on the group financial statements.
  - (i) Group engagement partner – The engagement partner<sup>6</sup> who is responsible for the group audit.
  - (j) Group engagement team – The group engagement partner and other members of the engagement team who are responsible for:
    - (i) Establishing the overall group audit strategy and audit plan;
    - (ii) Directing and supervising component auditors and reviewing their work;
    - (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
  - (k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process.
  - (l) Group management – Management responsible for the preparation of the group financial statements.
  - (m) Group performance materiality – Performance materiality<sup>7</sup> in relation to the group financial statements as a whole, as determined by the group engagement team.
10. Reference in this ISA to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.
11. Reference in this ISA to “consolidation process” includes the recognition, measurement, presentation, and disclosure, in accordance with the requirements of the applicable financial reporting framework, of financial information of entities or business units in the group financial statements by way of: (Ref: Para. A16, A18)
- (a) Consolidation, proportionate consolidation, or the equity methods of accounting;
  - (b) The aggregation of the financial information of branches or divisions; or (Ref: Para. A17)

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<sup>5</sup> Proposed ISA 220 (Revised), paragraph 10(d)

<sup>6</sup> Proposed ISA 220 (Revised), paragraph 10(a)

<sup>7</sup> ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 11

- (c) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control.

## Requirements

### Leadership Responsibilities for Managing and Achieving Quality on a Group Audit

- 12. In applying proposed ISA 220 (Revised),<sup>8</sup> the group engagement partner shall be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgments made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement. (Ref: Para. A19–A20)

### Acceptance and Continuance

- 13. The group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. For this purpose, the group engagement team shall obtain an understanding of the group that is sufficient to identify components and make a preliminary determination about whether to involve component auditors. (Ref: Para. A21–A24)
- 14. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A25)

### Terms of the Engagement

- 15. In applying ISA 210,<sup>9</sup> the group engagement team shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A26)
  - (a) Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
  - (b) Additional information that the engagement team may request from group management and component management for the purpose of the group audit; and
  - (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

### Restrictions on Access Outside the Control of Group Management

- 16. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A27–A32)

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<sup>8</sup> Proposed ISA 220 (Revised), paragraph 13

<sup>9</sup> ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(b) and 8(b)

*Restrictions on Access Imposed by Group Management*

17. If the group engagement partner concludes that:
- (a) It will not be possible for the group engagement team to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
  - (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,
- the group engagement partner shall either:
- (i) In the case of a new engagement, not accept the engagement, or, in the case of a continuing engagement, withdraw from the engagement, where withdrawal is possible under applicable law or regulation; or
  - (ii) Where law or regulation prohibit an auditor from declining an engagement or where withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements. (Ref: Para. A31–A33)

*Considerations When Component Auditors Are Involved*

18. In applying proposed ISA 220 (Revised),<sup>10</sup> the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A34)
19. As part of the evaluation in paragraph 18, the group engagement team shall request the component auditor to confirm that the component auditor will cooperate with the group engagement team. (Ref: Para. A35)

*Relevant Ethical Requirements, Including Those Related to Independence*

20. In applying proposed ISA 220 (Revised),<sup>11</sup> the group engagement partner shall take responsibility for: (Ref: Para. A36–A39, A111)
- (a) Determining that component auditors have been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement;
  - (b) Obtaining an understanding about whether component auditors understand and will comply with the ethical requirements that are relevant to the group audit engagement and, in particular, are independent; and
  - (c) Prior to dating the auditor's report, obtaining a confirmation from component auditors that the ethical requirements that are relevant to the group audit engagement, including those related to independence, have been fulfilled.

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<sup>10</sup> Proposed ISA 220 (Revised), paragraph 13

<sup>11</sup> Proposed ISA 220 (Revised), paragraphs 16–17 and 21

## Engagement Resources

21. In applying proposed ISA 220 (Revised),<sup>12</sup> the group engagement partner shall: (Ref: Para. A40)
- (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time to perform the assigned audit procedures at the component; and (Ref: Para. A41–A45)
  - (b) When information has been provided about the results of the monitoring and remediation process or external inspections with respect to the component auditor's firm, determine the relevance of such information to the group audit and determine its effect on the group audit. (Ref: Para. A46)
22. If the group engagement partner has serious concerns about any of the matters in paragraphs 18–21, including if a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving that component auditor. (Ref: Para. A47–A48)

## Engagement Performance

23. In applying proposed ISA 220 (Revised),<sup>13</sup> the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work. In doing so, the group engagement partner takes into account: (Ref: Para. A49–A52)
- (a) Areas of higher assessed risks of material misstatement of the group financial statements, or where a significant risk has been identified; and
  - (b) Areas in the group financial statements that involve significant judgment.

## Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

24. In applying ISA 315 (Revised 2019),<sup>14</sup> the group engagement team shall take responsibility for obtaining an understanding of the following: (Ref: Para. A53–A55, A69–A70)
- (a) The group and its environment, including: (Ref: Para. A56–A58)
    - (i) The group's organizational structure and its business model, including:
      - a. The locations in which the group has its operations or activities;
      - b. The nature of the group's activities and business lines and the extent to which they are similar; and
      - c. The extent to which the group's business model integrates the use of IT; and
    - (ii) The nature and extent of the measures used internally and externally to assess the entities or business units' financial performance;

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<sup>12</sup> Proposed ISA 220 (Revised), paragraphs 25–26

<sup>13</sup> Proposed ISA 220 (Revised), paragraph 29

<sup>14</sup> ISA 315 (Revised 2019), paragraph 19

- (b) The applicable financial reporting framework, including the consistency of accounting policies and practices across the group; and
- (c) The group's system of internal control, including:
  - (i) The nature and extent of commonality of controls; (Ref: Para. A59–A63)
  - (ii) Whether, and if so, how, the group centralizes activities relevant to financial reporting; (Ref: Para. A64–A65)
  - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
  - (iv) How the group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the system of internal control. (Ref: Para. A66–A68)

#### *Considerations When Component Auditors Are Involved*

- 25. When the group engagement team assigns the design and performance of risk assessment procedures to component auditors, the group engagement team shall consider the results of those procedures in fulfilling the requirement in paragraph 32. (Ref: Para. A71)
- 26. When paragraph 25 applies, the group engagement team shall communicate with component auditors matters related to the financial information of components that may be relevant to the identification and assessment of the risks of material misstatement of the group financial statements.
- 27. In applying ISA 550,<sup>15</sup> the group engagement team shall communicate with the component auditor related party relationships or transactions identified by group management, and any other related parties of which the group engagement team is aware, that are relevant to the work of the component auditor. (Ref: Para. A72)
- 28. In applying ISA 570 (Revised),<sup>16</sup> the group engagement team shall:
  - (a) Communicate with component auditors any events or conditions identified by group management or the group engagement team, that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.
  - (b) Communicate with component auditors any events or conditions identified by the component auditor that may cast significant doubt on the group entity's ability to continue as a going concern.

#### **Materiality**

- 29. In applying ISA 320<sup>17</sup> and ISA 450,<sup>18</sup> when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group engagement team shall determine:

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<sup>15</sup> ISA 550, *Related Parties*, paragraph 17

<sup>16</sup> ISA 570 (Revised), *Going Concern*

<sup>17</sup> ISA 320, paragraph 11

<sup>18</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5

- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A73–A76)
- (b) The threshold above which misstatements identified in component financial information are to be communicated to the group engagement team. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A77)

*Considerations When Component Auditors Are Involved*

30. The group engagement team shall communicate to the component auditor the amounts determined in accordance with paragraph 29.

**Identifying and Assessing the Risks of Material Misstatement**

31. In applying ISA 315 (Revised 2019),<sup>19</sup> based on the understanding obtained in paragraph 24, the group engagement team shall take responsibility for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A78–A81)

*Considerations When Component Auditors Are Involved*

32. When the group engagement team involves component auditors in the risk assessment procedures as described in paragraph 25 or in the identification and assessment of the risks of material misstatement of the group financial statements, the group engagement team shall consider the results of the component auditors' work in determining whether it provides an appropriate basis for the identification and the assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A82–A84)

**Responding to the Assessed Risks of Material Misstatement**

33. In applying ISA 330,<sup>20</sup> the group engagement team shall take responsibility for the nature, timing and extent of further audit procedures to be performed. (Ref: Para. A85–A93)

*Consolidation Process*

34. The group engagement team shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include:
- (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations; and (Ref: Para. A94)
  - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications. (Ref: Para. A95)
35. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

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<sup>19</sup> ISA 315 (Revised 2019), paragraphs 28–29

<sup>20</sup> ISA 330, paragraphs 6–7

36. If the group financial statements include the financial statements of an entity or business unit with a financial reporting period-end that differs from that of the group, the group engagement team shall take responsibility for evaluating whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework.

*Considerations When Component Auditors Are Involved*

37. When the group engagement team assigns the design and performance of further audit procedures to component auditors, the group engagement team shall communicate with component auditors matters that are relevant to the design of responses to the assessed risks of material misstatement of the group financial statements. (Ref: Para. A96–A101)
38. For areas of higher assessed risks of material misstatement of the group financial statements, including significant risks, on which a component auditor is determining the further audit procedures to be performed, the group engagement team shall evaluate the appropriateness of those further audit procedures.
39. In accordance with paragraph 23, the group engagement team shall determine the nature and extent of direction and supervision of component auditors and the review of their work when component auditors perform further audit procedures on the consolidation process, including on sub-consolidations. (Ref: Para. A102)
40. The group engagement team shall determine whether the financial information identified in the component auditor's communication (see paragraph 44(a)) is the financial information that is incorporated in the group financial statements.
41. The group engagement team shall request the component auditor to communicate on a timely basis:
- (a) Related parties not previously identified by group management or the group engagement team.
  - (b) Any events or conditions that may cast significant doubt on the group entity's ability to continue as a going concern.

*Using Audit Evidence from an Audit Performed for Another Purpose*

42. If an audit has been performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons, and the group engagement team plans to use such work as audit evidence for the group audit, the group engagement team shall evaluate whether: (Ref: Para. A103–A104)
- (a) The audit procedures performed are an appropriate response to the assessed risks of material misstatement of the group financial statements;
  - (b) Performance materiality used for that audit is appropriate for the purposes of the group audit; and
  - (c) Other relevant requirements in this ISA have been met with respect to the use of the work of a component auditor, including the requirements in paragraphs 20–22. (Ref: Para. A105)

**Two-Way Communication Between the Group Engagement Team and the Component Auditor**

43. The group engagement team shall communicate with component auditors about their responsibilities and the group engagement team's expectations. These communications shall take place at the

appropriate points in time throughout the group audit and reflect the component auditor's involvement in various phases of the group audit. (Ref: Para. A106–A111)

44. The group engagement team shall request the component auditor to communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication shall include:
- (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures;
  - (b) Information on instances of non-compliance with laws or regulations;
  - (c) Uncorrected misstatements of the financial information on which the component auditor performed further audit procedures and that are above the threshold communicated by the group engagement team in accordance with paragraph 30;
  - (d) Indicators of possible management bias;
  - (e) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
  - (f) Other significant matters that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in the group's system of internal control at the component level or others where the fraud resulted in a material misstatement of the financial information of the component; (Ref: Para. A112)
  - (g) Any other matters that may be relevant to the group audit, or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management; and
  - (h) The component auditor's overall findings, conclusions or opinion.
45. The group engagement team shall:
- (a) Discuss significant matters arising from the communications with the component auditor, component management or group management, as appropriate;
  - (b) Determine whether, and the extent to which, it is necessary to review parts of the component auditor's audit documentation; and (Ref: Para. A113)
  - (c) Evaluate whether the communications with component auditors are adequate for the group engagement team's purposes.
46. If the group engagement team determines that the component auditors' communications are not adequate for the group engagement team's purposes, the group engagement team shall consider whether further information can be obtained from component auditors or other sources. If such information cannot be obtained through other sources, the group engagement team shall consider the implications for the group audit, in accordance with paragraph 49.

### **Subsequent Events**

47. In applying ISA 560,<sup>21</sup> the group engagement team shall take responsibility for performing procedures designed to identify events that may require adjustment to or disclosure in the group financial statements, including, as appropriate, requesting component auditors to perform procedures, for events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements. (Ref: Para. A114)

#### *Considerations When Component Auditors Are Involved*

48. The group engagement team shall request the component auditors to notify the group engagement team if they become aware of subsequent events that may require an adjustment to or disclosure in the group financial statements. (Ref: Para. A114)

### **Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained**

49. In applying ISA 330,<sup>22</sup> the group engagement team shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A115)

#### *Evaluating the Effect on the Group Audit Opinion*

50. The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group engagement team or communicated by component auditors) and any instances where there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A116)

#### *Considerations When Component Auditors Are Involved*

51. If the group engagement team concludes that the work of the component auditor is insufficient, the group engagement team shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group engagement team.

### **Auditor's Report**

52. The auditor's report on the group financial statements shall not refer to a component auditor, unless required by laws or regulations to include such reference. If such reference is required by laws or regulations, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion. (Ref: Para. A117–A118)

### **Communication with Group Management and Those Charged with Governance of the Group**

53. The group engagement team shall determine which identified deficiencies in the group's system of internal control to communicate to those charged with governance of the group and group management in accordance with ISA 265.<sup>23</sup> In making this determination, the group engagement

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<sup>21</sup> ISA 560, *Subsequent Events*, paragraph 7

<sup>22</sup> ISA 330, paragraph 26

<sup>23</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

team shall consider deficiencies in internal control that have been identified by the group engagement team and that have been communicated to the group engagement team by component auditors. (Ref: Para. A119)

#### *Communication with Group Management*

54. If fraud has been identified by the group engagement team or brought to its attention by a component auditor (see paragraph 44 (f)), or information indicates that a fraud may exist, the group engagement team shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref. Para. A120)
55. A component auditor may be required by statute, regulation or for another reason, to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group engagement team shall request group management to inform management of the entity or business unit of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group engagement team shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A121)

#### *Communication with Those Charged with Governance of the Group*

56. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 260 (Revised)<sup>24</sup> and other ISAs: (Ref: Para. A122)
- (a) An overview of the work to be performed at the entities and business units comprising the group and the nature of the group engagement team's planned involvement in the work to be performed by component auditors. (Ref: Para. A123)
  - (b) Instances where the group engagement team's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group engagement team addressed the concern.
  - (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
  - (d) Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others where the fraud resulted in a material misstatement of the group financial statements.

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<sup>24</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

## Documentation

57. In applying ISA 230,<sup>25</sup> the group engagement team shall include in the audit documentation: (Ref: Para. A124, A129–A130)
- (a) Significant matters related to restrictions on access to people or information that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
  - (b) The group engagement team's determination of components for purposes of planning and performing the group audit.
  - (c) The determination of component performance materiality and the threshold for communicating misstatements in component financial information to the group engagement team.
  - (d) The nature, timing and extent of the group engagement team's direction and supervision of component auditors and the review of their work. (Ref: Para. A125–A128)
  - (e) Matters related to communication with component auditors, including:
    - (i) The matters required to be communicated in accordance with paragraphs 27–28 and 41.
    - (ii) Matters relevant to the group engagement team's conclusion with regard to the group audit, as required by paragraph 44, including how the group engagement team has addressed significant matters discussed with component auditors, component management or group management.
  - (f) The group engagement team's evaluation of, and response to, findings of the component auditors with respect to matters that could have a material effect on the group financial statements.

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## Application and Other Explanatory Material

### Scope (Ref: Para. 1, 3)

- A1. This ISA deals with the special considerations for the group engagement partner and group engagement team in applying the requirements and guidance in proposed ISA 220 (Revised), including with respect to the direction and supervision of component auditors and the review of their work.
- A2. Proposed ISQM 1<sup>26</sup> addresses the engagements for which an engagement quality review is required to be performed. Proposed ISQM 2<sup>27</sup> deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.

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<sup>25</sup> ISA 230, *Audit Documentation*, paragraphs 8–11 and A6

<sup>26</sup> Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*. All references to proposed ISQM 1 are to the version presented to the IAASB in March 2020.

<sup>27</sup> Proposed ISQM 2, *Engagement Quality Reviews*. All references to proposed ISQM 2 are to the version presented to the IAASB in March 2020.

- A3. An entity or business unit of a group may also prepare group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a subgroup). This ISA therefore applies to such subgroups.
- A4. When this ISA applies, the auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed (by the group engagement team or component auditors on its behalf). The manner in which components are viewed for purposes of planning and performing a group audit may be influenced by the group structure, but may or may not be aligned with the way in which the group is organized, which could be, for example, by legal entities, geographic locations, or lines of business.
- A5. For example, for a group comprised of 15 legal entities that are required to be consolidated under the provisions of the applicable financial reporting framework (i.e., group financial statements), the auditor may plan and perform the group audit by combining these 15 entities into three components based on the commonality of information systems and systems of internal control.
- A6. A group may also centralize activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service center. When such centralized activities are relevant to the group's financial reporting process and audit procedures are performed at that location, the group engagement team may determine that the shared service center is a component for purposes of the group audit.

*Involvement of Component Auditors* (Ref: Para. 4)

- A7. The involvement of component auditors may be necessary for various reasons. For example, when there are many components across multiple jurisdictions, the group engagement team may need the assistance of component auditors to identify, assess and respond to the risks of material misstatement of the group financial statements.
- A8. The group engagement team may decide to assign certain audit procedures to, or obtain information from, component auditors to fulfill the requirements of this ISA. For example, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group engagement team may discuss with a component auditor whether there are any significant changes in the business of the component that could have an effect on the risks of material misstatement of the group financial statements. Appendix 1 provides additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit.

*Professional Skepticism* (Ref: Para. 5)

- A9. Proposed ISA 220 (Revised)<sup>28</sup> provides examples of the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases that may impede the exercise of professional skepticism, and possible actions that the engagement team may take to mitigate impediments to the exercise of professional skepticism at the engagement level. A group audit engagement may present additional challenges to the exercise of professional skepticism by the

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<sup>28</sup> Proposed ISA 220 (Revised), paragraphs A35–A37

engagement team. For example, when there are a large number of components across multiple jurisdictions, it may be important for the group engagement team to remain alert for contradictory information from component auditors, component management and group management with respect to a matter of significance to the group financial statements. In addition, component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.

- A10. Requirements and relevant application material in ISA 315 (Revised 2019),<sup>29</sup> ISA 540 (Revised)<sup>30</sup> and other ISAs also provide examples of areas in an audit where the auditor exercises professional skepticism, or examples of where appropriate documentation may help provide evidence about how the auditor exercised professional skepticism.

## Definitions

### *Aggregation Risk* (Ref: Para. 9(a))

- A11. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit engagement because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components.

### *Component* (Ref: Para. 9(b))

- A12. As noted in paragraph A4, the group engagement team uses professional judgment in determining the components for which audit procedures will be performed. Although the group engagement team may combine certain entities or business units for purposes of planning and performing the group audit, the group engagement team's consideration of the risks of material misstatement of the group financial statements encompasses all of the entities and business units that comprise the group. In other words, the group engagement team's view of components for the group audit and how entities or business units may be combined to facilitate the performance of the group audit considers all of the entities and business units that are included in the consolidation process.

### *Component Auditor* (Ref: Para. 9(c))

- A13. References in this ISA to the engagement team include members of the group engagement team and component auditors. The engagement team includes individuals from the group engagement team's firm and may include individuals from a network firm, a firm that is not a network firm, or an external service provider.
- A14. In some circumstances, the group engagement team may perform centralized testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group engagement team is not considered a component auditor for purposes of this ISA.

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<sup>29</sup> ISA 315 (Revised 2019), paragraph A238

<sup>30</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

*Component Management* (Ref: Para. 9(d))

- A15. Component management refers to management responsible for the financial information or other activity (for example, processing of transactions at a shared service center) at an entity or business unit that is part of the group. When the group engagement team combines entities or business units into components (see paragraphs A4–A6), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component.

*Consolidation Process* (Ref: Para. 11)

- A16. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise allow, the presentation of combined financial statements for entities that have no parent but are under common control.
- A17. When branches or divisions within a single entity prepare financial information, through separate branch or divisional accounting, financial reporting frameworks may require the financial information of the branches or divisions to be aggregated into the financial statements of the entity, including the elimination of interbranch or interdivisional transactions and balances. In some circumstances, the accounting for the branches or divisions may be performed centrally, and there is no separately prepared financial information for the branches or divisions that requires aggregation. In these circumstances, unless there are other entities or business units whose financial information is subject to a consolidation process as described in paragraph 11, the financial statements do not represent group financial statements and therefore this ISA does not apply.
- A18. The detailed aspects of the consolidation process vary from one group to another, depending on the group's structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intragroup transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

**Leadership Responsibilities for Managing and Achieving Quality on a Group Audit** (Ref: Para. 12)

- A19. It may not be possible or practical for the group engagement partner to solely deal with all requirements in proposed ISA 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, proposed ISA 220 (Revised)<sup>31</sup> allows the engagement partner to assign responsibilities for the design or performance of procedures, tasks, or other actions to appropriately skilled or suitably experienced members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign responsibilities to other members of the engagement team and these members may assign responsibilities further. In such circumstances,

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<sup>31</sup> Proposed ISA 220 (Revised), paragraph 15

proposed ISA 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the engagement.<sup>32</sup>

- A20. Policies or procedures established by the firm, or that are common network requirements or network services, may support the group engagement partner by facilitating communication between the group engagement team and component auditors and supporting the group engagement team's direction and supervision of those component auditors and the review of their work.

### **Acceptance and Continuance**

*Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected To Be Obtained* (Ref: Para. 13–14)

- A21. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:

- The group structure, including both the legal and organizational structure.
- Business activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
- The use of service organizations.
- The use of shared service centers.
- The consolidation process.
- Whether the group engagement team:
  - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management, component information; and
  - Will be able to perform necessary work on the financial information of the components.

- A22. In the case of a new engagement, the group engagement team's understanding of the matters in paragraph A21 may be obtained from:

- Information provided by group management;
- Communication with group management;
- Communication with those charged with governance of the group; and
- Where applicable, communication with component management or the previous group engagement team.

- A23. For a continuing engagement, obtaining audit evidence may be affected by significant changes, for example:

- Changes in the group structure (e.g., acquisitions, disposals, reorganizations, or changes in how the group financial reporting system is organized).
- Changes in components' business activities that are significant to the group.

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<sup>32</sup> Proposed ISA 220 (Revised), paragraph 15

- Changes in the composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
- New concerns the group engagement team has with regard to the integrity and competence of group or component management.
- Changes in the applicable financial reporting framework.

A24. There may be more complexities with obtaining sufficient appropriate audit evidence in a group audit with components in jurisdictions other than the group engagement team's jurisdiction because of cultural and translation issues and different laws or regulations (e.g., regulations restricting access to data).

A25. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

- The group engagement team's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit documentation sought by the group engagement team); or
- The work to be performed on the financial information of components.

In exceptional circumstances, such restrictions may lead to withdrawal from the engagement, where withdrawal is possible under applicable laws or regulations. In these circumstances, an inability to obtain sufficient appropriate audit evidence would need to be evaluated, in accordance with ISA 705 (Revised),<sup>33</sup> in forming an opinion on the group financial statements.

*Agreeing the Terms of Audit Engagements* (Ref: Para. 15)

A26. ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.<sup>34</sup> The terms of engagement identify the applicable financial reporting framework.<sup>35</sup> Additional matters may be included in the terms of a group audit engagement, such as:

- Communications between the group engagement team and component auditors should be unrestricted to the extent possible under laws or regulations;
- Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group engagement team;
- Communications between regulatory authorities and components related to financial reporting matters should be communicated to the group engagement team; and
- The group engagement team should be permitted to perform work or request a component auditor to perform work at the component.

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<sup>33</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>34</sup> ISA 210, paragraph 9

<sup>35</sup> ISA 210, paragraph 10

*Restrictions on Access to Information or People (Ref: Para. 16–17)*

- A27. Restrictions on access to information or people do not alleviate the requirement for the group engagement team to obtain sufficient appropriate audit evidence.
- A28. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease.
- A29. In many cases, the group engagement team may be able to overcome restrictions on access to information or people, for example:
- When laws or regulations restrict sending relevant audit documentation across borders, the group engagement team may be able to access the relevant audit documentation by one or more of the following:
    - Visiting the location of the component;
    - Reviewing the relevant audit documentation remotely, where not prohibited by laws or regulations;
    - Requesting the component auditor to prepare a memorandum that addresses the relevant information and discuss it with the component auditor; or
    - Discussing the procedures performed with the component auditor.
  - When the group has a non-controlling interest in an entity that is accounted for by the equity method, the group engagement team may be able to overcome restrictions by:
    - Determining whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding access by the group to the financial information of the entity, and requesting management to exercise such rights;
    - Considering financial information that is available from group management, as group management also needs to obtain the entity's financial information in order to prepare the group financial statements;
    - Considering publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity; or
    - Considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained. For example, if the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, discussion with them regarding the non-controlled entity and its operations and financial status may be a useful source of information.
  - When war, civil unrest or outbreaks of disease restricts access to relevant audit documentation of a component auditor, the group engagement team may be able to meet with the component auditor in a location different from where the component auditor is located or review the relevant audit documentation remotely, where not prohibited by laws or regulations.

- When access to component management or those charged with governance of the component is restricted, the group engagement team may be able to perform the work themselves by working with group management or those charged with governance of the group.
- A30. When the group engagement team cannot overcome restrictions, the group engagement team may communicate about the restrictions to the group engagement team's firm. The group engagement team's firm may communicate with regulators, listing authorities, or others, about the restrictions and may encourage group management to communicate with regulators. This may be particularly useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.
- A31. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group engagement team may need to reconsider the reliability of group management's responses to the group engagement team's inquiries and may call into question group management's integrity.

#### Effect of Restrictions on the Auditor's Report on Group Financial Statements

- A32. ISA 705 (Revised) contains requirements and guidance about how to address situations where the group engagement team is unable to obtain sufficient appropriate audit evidence. Appendix 2 to this ISA contains an example of an auditor's report containing a qualified group audit opinion based on the group engagement team's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

#### Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement

- A33. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA still apply to the group audit, and the effect of the group engagement team's inability to obtain sufficient appropriate audit evidence is addressed in ISA 705 (Revised).

#### *Consideration When Component Auditors Are Involved* (Ref: Para. 18–19)

- A34. In evaluating whether the group engagement team will be able to be involved in the work of the component auditor to the extent necessary, the group engagement team may obtain an understanding of whether the group engagement team will have unrestricted access to the component auditor, including relevant audit documentation sought by the group engagement team. The group engagement team may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group engagement team.
- A35. When requesting the component auditor to confirm that the component auditor will cooperate with the group engagement team, the group engagement team may also request the component auditor to confirm that it will conduct its work as directed by the group engagement team.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 20)

- A36. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those relating to independence, that are relevant to the group audit. Such requirements may be different or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.
- A37. In communicating relevant ethical requirements, the group engagement team may consider whether additional information or training for component auditors is necessary with respect to the provisions of the ethical requirements that are relevant to the group audit engagement.
- A38. Proposed ISA 220 (Revised) requires the engagement partner to remain alert throughout the audit engagement, through observation and making inquiries as necessary, for actual or suspected breaches of relevant ethical requirements by the engagement team.<sup>36</sup> Becoming aware of actual or suspected breaches of relevant ethical requirements may be more challenging in a group audit, particularly where component auditors do not use common network services. In such circumstances, the group engagement team may also instruct component auditors to communicate relevant information to the group engagement partner.
- A39. As described in ISQM 1, there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement and where such insufficiency may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required may be a more important consideration by the firm in respect to group audit engagements where, for example, there are multiple components at which audit procedures are performed. The International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out requirements and application material addressing threats to compliance with the fundamental principles and to independence that might be created by fees and other remuneration arrangements.

Engagement Resources (Ref: Para. 21)

- A40. The determination whether sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team may be more challenging in a group audit engagement. This may be because audit work is conducted across different locations with different characteristics (e.g., different languages, time zones or cultures) where collaboration is more challenging. Also, working with component auditors that are not from the same firm may be different than working with individuals from the same firm, particularly when component auditors have different systems of quality management. These differences may pose challenges in the coordination of the overall audit strategy and audit plan between the group engagement team and component auditors. Adequate and timely involvement by the group engagement partner and group engagement team may address these challenges.

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<sup>36</sup> Proposed ISA 220 (Revised), paragraph 19

Competence and capabilities of the component auditors (Ref: Para. 21(a))

- A41. Determining whether the component auditor has the appropriate competence and capabilities influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work. Determining whether the component auditor has the appropriate competence and capabilities is a matter of professional judgment and is influenced by the nature and circumstances of the group audit engagement.
- A42. In determining whether component auditors have the appropriate competence and capabilities to perform the necessary procedures at the component for purposes of the group audit, the group engagement partner may consider matters such as:
- Previous experience with or knowledge of the component auditor.
  - The component auditor's specialized skills (e.g., industry specific knowledge).
  - The component auditor's understanding of the applicable financial reporting framework relevant to the group financial statements, and any instructions provided by group management.
  - The degree to which the group engagement team and component auditor are subject to common systems of quality management, for example, whether the group engagement team and a component auditor:
    - Use common resources to perform the work (e.g., audit methodologies or information technology (IT) applications);
    - Share common policies or procedures affecting the engagement performance (e.g., direction and supervision and review of work or consultation);
    - Are subject to common monitoring activities; or
    - Have other commonalities, including common leadership or a common cultural environment.
  - The consistency or similarity of:
    - Laws or regulations or legal system;
    - Language and culture;
    - Education and training;
    - Professional oversight, discipline, and external quality assurance; or
    - Professional organizations and standards.
  - Information obtained through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.
- A43. The procedures to determine the component auditor's competency and capability may include, for example:
- An evaluation of the information communicated by the group engagement team's firm to the group engagement team, including:

- The firm's ongoing communication related to monitoring and remediation, in circumstances when the group engagement team and component auditor are from the same firm.<sup>37</sup>
  - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.
  - Discussing the matters in paragraph A51 with the component auditor.
  - Requesting the component auditor to confirm the matters referred to in paragraph 20 in writing.
  - Discussing the component auditor's competency and capabilities with colleagues in the group engagement partner's firm.
  - Obtaining confirmations from the professional body or bodies to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.
  - In subsequent years, requesting that the component auditor confirm whether anything in relation to the matters listed in paragraph 21(a)–(b) has changed since the previous year.
  - Obtaining published external inspection reports.
- A44. The group engagement partner's firm and the component auditor's firm may be members of the same network and may be subject to common network requirements or use common networks services.<sup>38</sup> When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training, or recruitment or that require the use of audit methodologies and related implementation tools. In accordance with proposed ISQM 1, the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management, taking into account the nature and circumstances of the firm and the engagements it performs.

Automated tools or techniques (Ref: Para. 21(a))

- A45. As described in proposed ISA 220 (Revised),<sup>39</sup> when determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools or techniques. When the group engagement team requires component auditors to use specific automated tools and techniques when performing audit procedures, the group engagement team may include in communications with component auditors that the use of such automated tools and techniques need to comply with the group engagement team's instructions.

Monitoring and remediation (Ref: Para. 21(b))

- A46. The group engagement team may be provided with information about deficiencies in relation to the component auditor's firm from external monitoring reports, or from the component auditor, that may be relevant to the group engagement team's understanding of the competence and capability of the

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<sup>37</sup> Proposed ISQM 1, paragraph 53

<sup>38</sup> Proposed ISQM 1, paragraphs 58–59

<sup>39</sup> Proposed ISA 220 (Revised), paragraph A20

component auditor. If the group engagement team and the component auditor are members of the same network and are subject to common monitoring activities undertaken by the network across network firms' systems of quality management, the results of the network's monitoring activities may also include such information. This information influences the nature, timing and extent of the engagement partner's direction and supervision of the component auditor and the review of their work.

Application of the Group Engagement Team's Understanding of a Component Auditor (Ref: Para. 22)

- A47. If a component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team cannot overcome this by being involved in the work of the component auditor or by supplementing the work of component auditor by performing additional risk assessment or further audit procedures on the financial information of the component.
- A48. However, the group engagement team may be able to overcome concerns that are not determined to be serious about the component auditor's professional competency (e.g., lack of industry specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: Para. 23)

- A49. It may be not possible or practical for the group engagement partner to solely determine the nature, timing and extent of direction, supervision and review, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations. In managing quality at the engagement level, the group engagement partner may assign such responsibilities to other members of the engagement team.
- A50. If component auditors are from a firm other than the group engagement team's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network, for example, in relation to the form, content and timing of communications with component auditors, including the use of group engagement team instructions to component auditors. Proposed ISA 220 (Revised) provides examples of actions that may need to be taken in such circumstances.<sup>40</sup>
- A51. In addition, the nature timing and extent of direction and supervision and review of the component auditor's work may be tailored taking into account the nature and circumstances of the engagement and, for example:
- The assessed risks of material misstatement. For example, if the group engagement team has identified a component that includes a significant risk, a corresponding increase in the extent of direction and supervision of the component auditor and a detailed review of the component auditor's audit documentation may be appropriate.

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<sup>40</sup> Proposed ISA 220 (Revised), paragraph A24

- The competence and capabilities of the component auditors performing the audit work. For example, if the group engagement team has no previous experience working with a component auditor, the group engagement team may communicate more detailed instructions or introduce greater in-person supervision of the component auditor as the work is performed.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including where service delivery centers are used.
- Access to component auditors' audit documentation. For example, where component auditor working papers cannot be transferred out of the jurisdiction, greater in-person supervision of the component auditor and in-person or electronic review of the component auditor's audit documentation may be appropriate (see also paragraphs A27–A32).

A52. There are different ways in which the group engagement partner may direct and supervise component auditors and review their work, for example:

- Meetings or calls with component auditors to communicate identified and assessed risks, issues, findings and conclusions.
- Reviews of the component auditor's documentation in person or remotely when permitted by law and regulation.
- Participating in the closing and other key meetings between the component auditors and component management.

**Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 24)**

A53. ISA 315 (Revised 2019) contains guidance on matters the auditor may consider when obtaining an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control.<sup>41</sup> Appendix 3 of this ISA provides further explanation of the components of the group's system of internal control, including controls over the group's financial reporting process and the consolidation process.

A54. The group's information system and financial reporting process may be closely aligned with the organizational structure, for example, a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method; a head office and one or more divisions or branches; or a combination of both. Some groups, however, may organize their information system by function, process, product or service (or by groups of products or services), or geographic locations. In these cases, the entity or business unit for which group or component management prepares financial information that is included in the group financial statements may be a function, process, product or service (or group of products or services), or geographic location.

A55. The group engagement team's understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with:

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<sup>41</sup> ISA 315 (Revised 2019), paragraphs A50–A89

- Group management or component management, including those who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
- Component auditors; or
- Auditors that perform an audit for statutory, regulatory or another reason on the financial statements of an entity or business unit that is part of the group.

*The Group and Its Environment* (Ref: Para. 24(a))

A56. An understanding of the group's organizational structure and its business model may enable the group engagement team to understand such matters as:

- The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special purpose entities are accounted for appropriately and whether adequate disclosures have been made.
- The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices.
- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates over multiple jurisdictions and when there are changes in ownership through formation, acquisition or joint ventures. These factors may give rise to increased susceptibility to material misstatements.

A57. Obtaining an understanding of the degree to which the group's activities and business lines are similar may enable the group engagement team to identify similar risks of material misstatement across components and design an appropriate response.

A58. The financial results of entities or business units are ordinarily measured and reviewed by group management. Inquiries of group management may reveal that group management relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The group engagement team's understanding of such performance measures may help to identify:

- Areas where there is increased susceptibility to the risk of material misstatement (e.g., due to pressures on component management to meet certain performance measures).
- Controls over the group's financial reporting process.

### *The Group's System of Internal Control*

#### The Nature and Extent of Commonality of Controls (Ref: Para. 24(c)(i))

A59. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, that operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.<sup>42</sup>

A60. The understanding of the components of the group's system of internal control therefore includes understanding the commonality of the controls within those components across the group. When the group engagement team plans to test the operating effectiveness of identified controls<sup>43</sup> that are common across the group, the group engagement team evaluates the design and determines the implementation of those controls in accordance with ISA 315 (Revised 2019).

A61. To determine the commonality of an identified control across the group, the group engagement team may consider whether:

- The control is designed centrally and required to be implemented as designed (i.e., without modification) at some or all components;
- The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
- If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or
- If the control is automated, it is configured in the same way in each IT application across the components.

A62. Judgment may often be needed to determine whether an identified control is a common control. For example, group management may require that all entities and business units perform a monthly

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<sup>42</sup> ISA 315 (Revised 2019), paragraph A5

<sup>43</sup> ISA 315 (Revised 2019), paragraph 26(a)

evaluation of the aging of customers' accounts that are generated from a specific IT application. When the aging reports are generated from different IT infrastructures or the implementation of the IT application differs across entities or business units, the group engagement team may need to consider whether the control can still be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT infrastructures (e.g., whether the IT application is configured in the same manner across different IT infrastructures, and whether there are effective general IT controls across different IT implementations of IT applications or different IT infrastructures).

- A63. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralization and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared services center that processes transactions on behalf of other entities or business units within the group). Typically, the processing of transactions and related controls at a shared service center operate in the same way for all transactions regardless of the entity or business unit (e.g., the processes, risks, and controls for all transactions, regardless of the source of the transaction, are the same). In such cases, it may be appropriate to identify the controls and evaluate the design and determine implementation of the controls, and if applicable test operating effectiveness, as a single population.

Centralized Activities (Ref: Para. 24(c)(ii))

- A64. Group management may centralize some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralized manner for multiple entities or business units (e.g., where the initiation, authorization, recording, processing, or reporting of revenue transactions is performed at a shared service center).
- A65. Obtaining an understanding of how centralized activities fit into the overall group structure, and the nature of the activities undertaken, may help the group engagement team to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service center may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorized at a component, but the processing may occur at the shared service center).

Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 24(c)(iv))

- A66. Group entities or business units may use a financial reporting framework for statutory, regulatory or another reason that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, where relevant, financial reporting period-ends that differ from that of the group, enables the group engagement team to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Instructions by group management to entities or business units

- A67. In applying ISA 315 (Revised 2019),<sup>44</sup> the group engagement team is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g. communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the group engagement team's identification and assessment of the risks of material misstatement of the group financial statements. For example, in certain circumstances, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.
- A68. The group engagement team's understanding of the instructions or policies may include the following:
- The clarity and practicality of the instructions for completing the reporting package.
  - Whether the instructions:
    - Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
    - Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
    - Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealized profits, and intra-group account balances; and
    - Include a reporting timetable.

*Engagement Team Discussion* (Ref: Para. 24)

- A69. The group engagement partner's determination of which members of the engagement team to include in the discussions and the topics to be discussed, is affected by factors such as initial expectations about the risks of material misstatement and the expected involvement of component auditors.
- A70. The discussions provide an opportunity to:
- Share knowledge of the components and their environments, including which components' activities are centralized.
  - Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
  - Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error.
  - Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.

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<sup>44</sup> ISA 315 (Revised 2019), paragraph 25(b)

- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalize committing fraud.
- Consider the risk that group or component management may override controls.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, where not, how differences in accounting policies are identified and adjusted (where required by the applicable financial reporting framework).
- Discuss fraud that has been identified, or information that indicates existence of a fraud.
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Identify risks of material misstatement relevant to components where the exercise of professional skepticism may be particularly important.
- Discuss any events or conditions identified by group management, or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.
- Discuss related party relationships or transactions identified by group management, and any other related parties of which the engagement team is aware.

*Considerations When Component Auditors Are Involved (Ref: Para. 25)*

A71. Factors that influence the group engagement team's decision about the nature and extent of risk assessment procedures assigned to component auditors include, for example:

- The number and geographical location of components;
- The nature of the components' business activities, including their complexity or specialization of operations; and
- The group's system of internal control, including the information system in place at the component.

Previous experience with the component auditor may also influence the group engagement team's decision whether to involve them in performing risk assessment procedures. When risk assessment procedures are assigned to component auditors, the group engagement team remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

*Related Parties (Ref: Para. 27)*

A72. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated

parties.<sup>45</sup> In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

- The group structure is complex;
- The group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- There are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional skepticism as required by ISA 200,<sup>46</sup> is therefore particularly important when these circumstances exist.

### **Materiality (Ref: Para. 29)**

A73. A different component performance materiality may be established for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality. However, this ISA does not require a different component performance materiality to be established for each class of transactions, account balance or disclosure for a component.

A74. ISA 320 requires the auditor to determine the materiality level or levels to be applied to particular classes of transactions, account balances or disclosures if, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.<sup>47</sup> In these circumstances, the group engagement team may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for that particular class of transactions, account balance or disclosure.

A75. Factors the group engagement team may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality generally would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).
- Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example:

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<sup>45</sup> ISA 550, paragraph 2

<sup>46</sup> ISA 200, paragraphs 17 and A53–A54

<sup>47</sup> ISA 320, paragraph 10

- Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions).
- The nature and extent of misstatements identified at the component in prior audits.

A76. In some cases, the group engagement team may perform further audit procedures on classes of transactions, account balances or disclosures that are aggregated. For example, audit procedures may be performed at the group level for an entire class of transactions or account balance as a single population. In such cases, group performance materiality often will be used for purposes of performing these procedures.

A77. The threshold for communicating uncorrected misstatements to the group engagement team is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA 450,<sup>48</sup> this threshold is the amount below which misstatements would not need to be accumulated because the group engagement team expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

### **Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 31)**

A78. The group engagement team's process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic and may be challenging, particularly where the component's business activities are complex or specialized, or when there are many components across multiple locations. In applying ISA 315 (Revised 2019),<sup>49</sup> the group engagement team will develop initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

A79. The initial expectations about the potential risks of material misstatement take into account the group engagement team's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group engagement team may involve component auditors in risk assessment procedures as their direct knowledge and experience with the entities or business units may be helpful in understanding the business activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

### ***Fraud***

A80. The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and implement appropriate responses to the assessed risks.<sup>50</sup> Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risks that the group financial statements are materially misstated as a result of fraud.

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<sup>48</sup> ISA 450, paragraph A3

<sup>49</sup> ISA 315 (Revised 2019), paragraph 22

<sup>50</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

- Group management's process for identifying and responding to the risks of fraud in the group, including any specific fraud risks identified by group management, or classes of transactions, account balances, or for which a risk of fraud is higher.
- Whether there are particular components for which the risks of material misstatement due to fraud is higher.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and if considered appropriate, component management, the component auditors, and others) to the group engagement team's inquiry whether they have knowledge of any actual, suspected, or alleged fraud affecting a component or the group.

#### *Inherent Risk Factors*

A81. Appendix 4 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error.

#### *Considerations When Component Auditors Are Involved (Ref: Para. 32)*

A82. The group engagement team may involve component auditors in the identification and the assessment of the risks of material misstatement of the group financial statements that result from inherent risk factors related to the financial information of a component. For example, the group engagement team may work with component auditors to develop initial expectations about potential risks of material misstatement of the group financial statements, including significant risks, related to components. Factors that influence the group engagement team's decision whether to involve component auditors are included in paragraph A71 (also see Appendix 1).

A83. The identification and assessment of inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when risk assessment procedures have been assigned to component auditors, the group engagement team may need to communicate its preferred approach with component auditors, or provide instructions.

A84. Based on the risk assessment procedures performed, the group engagement team may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction.

#### **Responding to the Assessed Risks of Material Misstatement (Ref: Para. 33)**

A85. In responding to the assessed risks of material misstatement of the group financial statements, different approaches are available to the group engagement team to obtain audit evidence on one or more classes of transactions, account balances or disclosures across the various components.

Paragraphs A86 to A93 provide guidance to assist the group engagement team in determining an appropriate approach, or combination of approaches, for the engagement team to obtain audit evidence. Paragraphs A96 to A101 provide guidance on the options available to the group engagement team for assigning further audit procedures to component auditors to obtain audit evidence on the financial information of components for the purpose of the group financial statements.

### *Scoping a Group Audit*

- A86. The group engagement team may design and perform further audit procedures centrally if the audit evidence to be obtained from performing further audit procedures on one or more classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement. For example, if the accounting records for the revenue transactions of the entire group are maintained centrally for the group (e.g., at a shared service center), the group engagement team may perform, or request a component auditor to perform, further audit procedures to address the assessed risks of material misstatement of the related classes of transactions, account balances, and disclosures.
- A87. As the complexity and the diversity of the group increases (e.g., if the group has many different revenue streams, multiple lines of business, operates across multiple locations or has de-centralized systems of internal control), the group engagement team may find it more difficult to perform further audit procedures centrally. In such circumstances, procedures to respond to the risks of material misstatement at the group financial statement level that are related to the financial information of a component may be more effectively performed at the component level.
- A88. The group engagement team may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogenous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.
- A89. The group engagement team may have identified a significant class of transactions, account balance or disclosure in the group financial statements that comprises classes of transactions, account balances or disclosures at many entities and business units, none of which individually result in a risk of material misstatement at the group financial statement level. To obtain sufficient appropriate audit evidence, audit procedures on these classes of transactions, account balances or disclosures may be performed centrally if they are homogeneous, subject to common controls and access to appropriate information can be obtained. If this is not the case, the engagement team may need to perform audit procedures at selected components.
- A90. The group engagement team may perform substantive analytical procedures in accordance with ISA 520<sup>51</sup> to address the risks of material misstatement at the assertion level for classes of transactions, account balances or disclosures in the group financial statements. Depending on the circumstances of the engagement, the financial information of the components may be aggregated by the group engagement team at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures.

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<sup>51</sup> ISA 520, *Analytical Procedures*

*Element of Unpredictability*

A91. Including an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group engagement team is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement due to fraud of the group financial statements.<sup>52</sup>

*Operating Effectiveness of Controls that Are Common Across the Group*

A92. If the group engagement team intends to rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components, the group engagement team, in accordance with ISA 330,<sup>53</sup> is required to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. This includes obtaining sufficient appropriate audit evidence that the controls are operating at the components as designed. The group engagement team may request the component auditor to assist the group engagement team in performing these procedures.

A93. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group engagement team may need to revise the audit plan. Possible revisions to the audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

*Consolidation Process*

*Consolidation Procedures (Ref: Para. 34(a))*

A94. The further audit procedures on the consolidation, including sub-consolidations, may include:

- Determining that the journal entries necessary are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

*Consolidation Adjustments and Reclassifications (Ref: Para. 34(b))*

A95. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group engagement team's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

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<sup>52</sup> ISA 240, paragraph 30(c)

<sup>53</sup> ISA 330, paragraph 8

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- Determining whether significant adjustments have been correctly calculated, processed and authorized by group management and, where applicable, by component management;
- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Checking the reconciliation and elimination of intra-group transactions and unrealized profits, and intra-group account balances.

*Considerations When Component Auditors Are Involved (Ref: Para. 37)*

- A96. Component auditors may have a more in-depth knowledge of the components than the group engagement team, and therefore the group engagement team may need the assistance of the component auditor to determine the nature, timing and extent of further audit procedures to be performed on the financial information of the component.
- A97. In assigning further audit procedures to component auditors, the group engagement team may request component auditors to perform one or more of the following:
- Design and perform further audit procedures on the entire financial information of the component;
  - Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
  - Perform specific further audit procedures as identified and communicated by the group engagement team.
- A98. The group engagement team may determine that audit evidence needs to be obtained on all or a significant proportion of a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team may determine that it is more effective to request that the component auditor design and perform further audit procedures on the entire financial information of the component. In such circumstances, the component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.
- A99. In certain circumstances, the group engagement team may determine that it is more effective to request that the component auditor designs and performs further audit procedures related to the entire financial information of a component. This may particularly be the case when there is a risk of material misstatement of the group financial statements due to the existence of events or conditions at the component:
- That may affect the group auditor's response to risks of material misstatement relating to the valuation of the assets and liabilities of a component included in the group financial statements; or

- That may be relevant to group management's assessment of the group's ability to continue as a going concern.

A100. The group engagement team may determine that audit evidence needs to be obtained on one or more classes of transactions, account balances, or disclosures of the financial information of a component. In such circumstances, the group engagement team may request that the component auditor performs further audit procedures on the classes of transactions, account balances or disclosures and may assign the design and performance of further audit procedures to the component auditor. The component auditor may need to consider the sufficiency and appropriateness of audit evidence obtained in performing the further audit procedures with respect to the financial information of the component.

A101. The group engagement team may request a component auditor to perform specific further audit procedures on the financial information of a component to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, the group engagement team determines the overall nature, timing and extent of procedures to be performed and appropriateness of those procedures for obtaining the audit evidence needed to respond to the assessed risks of material misstatement of the group financial statements.

*Consolidation Process (Ref: Para. 39)*

A102. The appropriate level of the group engagement team's involvement may depend on the circumstances and the structure of the group and other factors, such as the group engagement team's previous experience with the component auditors that perform procedures on the consolidation and sub-consolidations (also see paragraph A51) and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

*Using Audit Evidence from an Audit Performed for Another Purpose (Ref: Para. 42)*

A103. An audit may be performed on the financial statements of an entity or business unit that is part of the group, and an auditor's report has been issued for statutory, regulatory or other reasons. For example, when an entity or business unit has been acquired close to year-end. If an audit has been performed and an auditor's report has been issued for statutory, regulatory or other reasons, the group engagement team may use audit evidence from that audit if the group engagement team is satisfied that the work is appropriate for the group engagement team's purposes. If the audit procedures performed are not an appropriate response to the assessed risks of material misstatement of the group financial statements, the group engagement team may decide not to use the audit evidence from that audit. Alternatively, the group engagement team may plan to have additional audit procedures performed on the component, to address the assessed risks of material misstatement of the group financial statements.

A104. In addition to the factors in paragraph 42, factors that may affect the group engagement team's decision whether to use the audit evidence from an audit that has already been performed due to statutory, regulatory or other reasons to provide audit evidence for the group audit may include the following:

- Differences in the financial reporting framework applied in preparing the financial statements of the entity or business unit and that applied in preparing the group financial statements.

- Differences in the auditing and other standards applied by the component auditor and those applied in the audit of the group financial statements.
- Differences in the financial reporting period-end between the financial statements of the entity or business unit and the financial statements of the group.

A105. Other relevant requirements in this ISA with respect to the use of the work of a component auditor as described in paragraph 42(c), may include the requirements in the sections on understanding the group and its environment, the applicable financial reporting framework and the group's system of internal control, materiality, identifying and assessing the risks of material misstatement, responding to the assessed risks of material misstatement and two-way communication between the group engagement team and the component auditor.

### **Two-Way Communication Between the Group Engagement Team and the Component Auditor**

#### *Effective Two-Way Communication (Ref: Para. 43)*

A106. Clear and timely communication of the group engagement team's and the component auditor's responsibilities, the timing of procedures to be performed by the component auditors and results of those procedures to be provided to the group engagement team, along with the expected general content of such communications, helps establish the basis for effective two-way communication. Effective two-way communication between the group engagement team and the component auditors also helps to set expectations for component auditors, and facilitates the group engagement team's direction and supervision of them and the review of their work.

A107. Factors that may also contribute to effective two-way communication include:

- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The manner in which communications will be made. For example, it may be better to discuss certain matters in person or by telephone or videoconference rather than by exchanging emails.
- The person(s) in the group engagement team who will communicate regarding particular matters.
- The group engagement team's expectations that communication will be two-way, and that the component auditor is expected to communicate timely with the group engagement team matters they consider relevant to the group audit.
- The process for taking action and reporting back on matters communicated by the group engagement team.

#### *Form of Communication (Ref: Para. 43)*

A108. The group engagement team's requirements are often communicated in a set of instructions and may be supplemented by direct communication with the component auditor, for example, through a telephone call or videoconference. The component auditor's communication with the group engagement team often takes the form of a memorandum or report of work performed. Communication between the group engagement team and the component auditor, however, may not necessarily be in writing. For example, the group engagement team may arrange a meeting, in person

or remotely, with the component auditor to discuss identified significant risks or review relevant parts of the component auditor's audit documentation. Nevertheless, the documentation requirements of this and other ISAs apply.

A109. The form of communication may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter will be communicated to group management and those charged with governance of the group.

*Timing of Communications* (Ref: Para. 43)

A110. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for a new engagement, may be made as part of agreeing the terms of the engagement.

*Non-Compliance with Laws or Regulations* (Ref: Para. 20, 43)

A111. The group engagement partner may become aware of information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.<sup>54</sup> The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to components that are not included in the scope of the group audit (e.g., components for which an audit is required by statute, regulation or for another reason, but for which no additional procedures are performed for purposes of the group audit).

*Communications with Those Charged with Governance of the Component* (Ref: Para. 44(f))

A112. In certain circumstances, the group engagement team may combine certain entities or business units into components for purposes of planning and performing the group audit (see paragraphs A4-A6). In these circumstances, the group engagement team may need to use professional judgment to determine, in accordance with ISA 260 (Revised),<sup>55</sup> the appropriate person(s) in the governance structure of those entities or business units with whom to communicate, in view of the nature of the matters to be communicated.

*Reviewing the Component Auditor's Audit Documentation* (Ref: Para. 45(b))

A113. The nature, timing and extent of the review of the component auditor's audit documentation may vary depending on the circumstances and may be affected by:

- (a) The identified risks of material misstatement of the group financial statements, including the degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of those risks;

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<sup>54</sup> See, for example, Section 360.17 and Section 360.18 of the IESBA Code

<sup>55</sup> ISA 260 (Revised), paragraph 11

- (b) The group engagement team's understanding of the component auditor, including the competence and capabilities of the component auditor;
- (c) The fact that the component auditor's audit documentation has been subjected to the component auditor's firm's policies or procedures for review of audit documentation; and
- (d) Limitations on the group engagement team's ability to access the component auditor's audit documentation.

**Subsequent Events** (Ref: Para. 47–48)

A114. The group engagement team may:

- (a) Request a component auditor to perform subsequent events procedures to assist the group engagement team to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- (b) Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.

**Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained**

*Sufficiency and Appropriateness of Audit Evidence* (Ref: Para. 49)

A115. The evaluation required by paragraph 49 assists the group engagement team in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA 330<sup>56</sup> for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material account balance, class of transactions and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

*Evaluating the Effect on the Group Audit Opinion* (Ref: Para. 50)

A116. The group engagement partner's evaluation may include a consideration of whether misstatements communicated by component auditors indicate a systemic issue (e.g., with respect to transactions subject to common accounting policies or common controls) that may affect other components.

**Auditor's Report** (Ref: Para. 52)

A117. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings, conclusions or opinions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A118. When the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability without referring to

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<sup>56</sup> ISA 330, paragraph 18

the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.<sup>57</sup>

## **Communication with Group Management and Those Charged with Governance of the Group**

### *Group Engagement Partner's Review of Component Auditor Communications* (Ref: Para. 53)

A119. The group engagement partner is not expected to review, prior to their issuance, all communications between a component auditor and component management. The group engagement partner may inform component auditors of their responsibilities in identifying communications that may be significant to the group audit engagement.

### *Communication with Group Management* (Ref: Para. 54–55)

A120. ISA 240 contains requirements and guidance on communication of fraud to management and, where management may be involved in the fraud, to those charged with governance.<sup>58</sup>

A121. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.
- Significant legal agreements.

### *Communication with Those Charged with Governance of the Group* (Ref: Para. 56)

A122. The matters the group engagement team communicates to those charged with governance of the group may include those brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph 56(a) may be communicated after the group engagement team has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph 56(b) may be communicated at the end of the audit, and the matters referred to in paragraph 56(c)–(d) may be communicated when they occur.

A123. ISA 260 (Revised)<sup>59</sup> requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. With respect to a group audit, the group engagement team's determination of the planned scope and approach is based on the understanding of the group and its environment in accordance with paragraph 24 of this ISA. This understanding helps the group engagement team to make preliminary judgments about components, including how the group's entities or business units may be combined for purposes of planning and performing the group audit, and where component auditors may need to be involved.

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<sup>57</sup> ISA 705 (Revised), paragraphs 20 and 24

<sup>58</sup> ISA 240, paragraphs 41–43

<sup>59</sup> ISA 260 (Revised), paragraph 15

**Documentation** (Ref: Para. 57)

A124. In accordance with ISA 230,<sup>60</sup> the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. The audit documentation for the group audit includes documentation of the nature, timing and extent of the work performed by component auditors related to a component (component auditor documentation). Such documentation may reside in the component auditor's audit file and need not be replicated in the group engagement team's audit file. However, the group engagement team may determine that it is appropriate to include certain of the component auditor's documentation in the group engagement team's audit file (for example, documentation of significant matters addressed by the component auditor that are relevant to the group audit). The extent to which such component auditor documentation is included in the group engagement team's audit file is a matter of professional judgment.

*Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work*

A125. ISA 300<sup>61</sup> requires the auditor to describe, in the audit plan, the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work.

A126. When component auditors are involved in the group audit, the group engagement team's documentation of its involvement in the work of component auditors may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA.
- The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed.
- Matters discussed in teleconferences or videoconferences with component auditors or component management.
- The rationale for the group engagement team's determination of component auditor audit documentation selected for review.
- Changes in the planned nature and extent of involvement with component auditors, and the reasons why.

A127. The determination of the nature and extent of the review of component auditor documentation by the group engagement team is also a matter of professional judgment. Paragraph A113 includes factors that may affect the determination of the extent of the review of audit documentation of component auditors.

A128. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group engagement team in documenting the direction and supervision of component auditors and the review of their work. For example, the firm may have developed an electronic audit tool that may be used to facilitate

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<sup>60</sup> ISA 230, paragraphs 8–9

<sup>61</sup> ISA 300, *Planning an Audit of Financial Statements*, paragraph 9(a).

communications between the group engagement team and component auditors, and such tool also may also be used for audit documentation.

*Other Documentation Considerations When Access to Component Auditor Documentation is Restricted*

A129. Audit documentation for an audit of group financial statements may present some additional complexities or challenges depending on the structure of the group. This may be the case, for example, when the group has entities or business units in a number of different jurisdictions with varying laws or regulations that may limit the ability of the group engagement team to access the component auditor documentation or restrict the component auditor from providing documentation outside of its jurisdiction.

A130. In these circumstances, the group engagement team is nonetheless required to obtain sufficient appropriate audit evidence to provide a basis for forming an opinion on the group financial statements. In addition, when the group engagement team determines that it may be appropriate to include relevant parts of the component auditor documentation in the group engagement team's audit file, but is restricted from doing so, the group engagement team's audit documentation may need to include a description of the audit procedures performed by the component auditor on matters relevant to the group audit, the evidence obtained from performing the procedures, and the findings and conclusions reached by the component auditor with respect to those matters. The group engagement team uses professional judgment in determining the nature and extent of such documentation to include in the group engagement team's audit file, in view of the requirements of ISA 230.

## Appendix 1

(Ref: Para. 4, A8, A82)

### Considerations Relating to the Involvement of Component Auditors in the Group Audit

1. This appendix provides additional guidance about the matters that the group engagement team may consider in determining whether, and the extent to which, component auditors are to be involved in the group audit. When component auditors are involved, this ISA includes additional requirements and guidance relating to the group engagement team's direction and supervision of component auditors, and the review of their work in accordance with proposed ISA 220 (Revised). However, as indicated in paragraph 6, the group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA.
2. Component auditors can be, and often are, involved in all phases of the group audit. The determination of whether, and the extent to which, component auditors are to be involved in the group audit engagement is a matter of professional judgment for the group engagement team and begins with the acceptance and continuance of the group audit engagement (see paragraph 13). A preliminary understanding of the group and its environment, including the matters described in paragraph 24 and expectations of the locations, functions or activities within the group at which audit evidence is to be obtained, provides a foundation for the group engagement partner's determination that sufficient and appropriate resources to perform the group audit engagement can be assigned. This determination relates to, for example:
  - The nature of resources, such as the use of appropriately experienced engagement team members. For example, component auditors may have greater experience and a more in-depth knowledge of the components and their environments (including language, culture, business practices, and local laws and regulations) than the group engagement team;
  - The amount and location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations; or
  - Access arrangements. For example, when the group engagement team's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
3. The determination of the involvement of component auditors is an iterative process. When the group engagement team makes a preliminary determination that component auditors will be involved in the group audit, the group engagement team obtains an understanding of component auditors to determine that they have the appropriate competence and capabilities (see paragraph 21). Paragraphs A41-A46 address the nature, timing and extent of the group engagement team's procedures to obtain an understanding of the competence and capabilities of component auditors. Such procedures are affected by factors described in paragraph A42, for example, previous experience with or knowledge of the component auditor, and the degree to which the group engagement team and the component auditor are subject to common policies and procedures.
4. The nature, timing and extent of the involvement of component auditors will vary depending on the circumstances of the engagement. The group engagement team may determine that it is appropriate

to involve component auditors to assist the group engagement team in fulfilling its responsibilities with respect to the requirements in this ISA, including relating to some or all of the following:

- Understanding the group and its environment by designing and performing risk assessment procedures (see paragraph 25);
  - Identifying and assessing the risks of material misstatement of the group financial statements (see paragraph 32); and
  - Designing and performing further audit procedures (see paragraph 37).
5. For certain components, when obtaining an understanding of the group and its environment for a continuing group audit in accordance with paragraph 24 of this ISA, the group engagement team may decide that it has sufficient resources and experience and therefore does not need to assign the design and performance of risk assessment procedures in relation to a component to the component auditor. However, the group engagement team may still discuss with the component auditor whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements when the group engagement team intends to assign the design and performance of further audit procedures to the component auditor.
6. For some components, the group engagement team may determine that it is appropriate for the component auditor to be involved in all phases of the group audit regarding the work to be performed in relation to that component. (e.g., for a component for which the group engagement team does not have the same in-depth knowledge or experience as the component auditor with respect to the component's business activities). The component auditor's involvement may include:
- Designing and performing risk assessment procedures to provide information relating to the component for purposes of identifying and assessing the risks of material misstatement of the group financial statements; and
  - Designing and performing further audit procedures in response to the assessed risks of material misstatement of the group financial statements.
7. For example, as described in paragraph A98, the group engagement team may determine that audit evidence needs to be obtained on all, or a significant proportion of, a component's financial information to respond to the assessed risks of material misstatement of the group financial statements. In such circumstances, a component auditor's greater experience and knowledge of the component's business may mean that the component auditor is better placed to design and perform the further audit procedures.

## Appendix 2

(Ref: Para. A32)

### **Illustration of Independent Auditor's Report Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.**
- **The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognized at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.**
- **The group engagement team has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.**
- **In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.<sup>62</sup>**
- **The IESBA Code comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.<sup>63</sup>**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

<sup>62</sup> If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

<sup>63</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Consolidated Financial Statements<sup>64</sup>

#### Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects (or give a true and fair view of), the consolidated financial position of the Group as at December 31, 20X1, and (of) their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA 720 (Revised)<sup>65</sup> – see Illustration 6 in Appendix 2 of ISA 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

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<sup>64</sup> The sub-title, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>65</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements<sup>66</sup>**

*[Reporting in accordance with ISA 700 (Revised)<sup>67</sup> – see Illustration 2 in ISA 700 (Revised).]*

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of listed entities only would not be included.]*

## **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised).]*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA 705 (Revised).

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<sup>66</sup> Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>67</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

## Appendix 3

(Ref: Para. A53)

### Understanding the Group's System of Internal Control

1. This appendix provides examples of controls that may be helpful in obtaining an understanding of the group's system of internal control in a group environment, and expands on how ISA 315 (Revised 2019) is to be applied in relation to an audit of group financial statements.<sup>86</sup> The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

#### Control Environment

2. The group engagement team's understanding of the control environment may include matters such as the following:
  - The structure of the governance and management functions across the group, and group management's oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
  - How oversight over the group's system of internal control by, those charged with governance is structured and organized.
  - How ethical and behavioral standards are communicated and reinforced in practice across the group, (e.g., group-wide programs, such as codes of conduct and fraud prevention programs).
  - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

#### The Group's Risk Assessment Process

3. The group engagement team's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analyzing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements.

#### The Group's Process to Monitor the System of Internal Control

4. The group engagement team's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, where relevant, activities of the internal audit function across the group. The group's internal audit function, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. ISA 610 (Revised 2013)<sup>87</sup> deals with the group engagement team's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately supports the objectivity of internal auditors, the level of competence of the internal audit function, and whether the function applies a systematic and disciplined approach where the group audit team expects to use the function's work.

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<sup>86</sup> ISA 315 (Revised 2019), Appendix 3

<sup>87</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

## **The Information System and Communication**

5. The group engagement team's understanding of the group's information system and communication may include matters such as the following:

- Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
- Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealized profits, and intra-group account balances at group level.
- A process for monitoring the timeliness and assessing the accuracy and completeness of financial information received from entities or business units in the group.

## *Consolidation Process*

6. The group engagement team's understanding of the consolidation process may include matters such as the following:

Matters relating to the applicable financial reporting framework:

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters relating to the consolidation process:

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, where applicable, ensuring that uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted where required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group's IT environment is organized for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters relating to consolidation adjustments and reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorization and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealized profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortizing goodwill (where applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

### **Control Activities**

7. The group engagement team's understanding of the control activities component may include matters such as the following:
- The extent of centralization in the group's IT environment and the commonality of IT applications, IT processes and IT infrastructure.
  - The commonality of information processing controls and general IT controls for all or part of the group.
  - The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
  - The extent to which commonly designed controls have been implemented consistently for all or part of the group.

## Appendix 4

(Ref: Para. A81)

### Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the group financial statements, at the financial statement level or the assertion level. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorized by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see ISA 315 (Revised 2019), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	<ul style="list-style-type: none"> <li>The existence of complex transactions that are accounted for in more than one entity or business units in the group.</li> <li>The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements.</li> <li>Accounting measurements or disclosures that involve complex processes used by entities or business units in the group such as accounting for complex financial instruments.</li> <li>Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.</li> </ul>
Subjectivity	<ul style="list-style-type: none"> <li>Judgments regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation.</li> <li>Judgments regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.</li> </ul>
Change	<ul style="list-style-type: none"> <li>Frequent acquisitions, disposals or reorganizations.</li> </ul>
Uncertainty	<ul style="list-style-type: none"> <li>Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unusual government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.</li> </ul>

Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk	<ul style="list-style-type: none"> <li>• Unusual related party relationships and transactions.</li> <li>• Entities or business units in the group with different financial year-ends, which may be utilized to manipulate the timing of transactions.</li> <li>• Prior occurrences of unauthorized or incomplete consolidation adjustments.</li> <li>• Aggressive tax planning within the group, or large cash transactions with entities in tax havens.</li> <li>• Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation.</li> </ul>
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Indicators that the control environment, the group's risk assessment process or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

- Poor corporate governance structures, including decision-making processes that are not transparent.
- Non-existent or ineffective controls over the group's financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.

# CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 600 (REVISED) – MARKED FROM EXTANT PROPOSED ISA 220 (REVISED) – QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Given that ISA 220 is being revised, the conforming and consequential amendments are tracked against the exposure draft of proposed ISA 220 (Revised).<sup>1</sup>

## Application and Other Explanatory Material

### Definitions

*Engagement Partner* (Ref: Para. 10(a))

A15A. When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the “engagement partner” and “engagement team” for the purposes of the ISAs. This ISA does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

## ISA 230 – AUDIT DOCUMENTATION

### Appendix

(Ref: Para. 1)

### Specific Audit Documentation Requirements in Other ISAs

This appendix identifies paragraphs in other ISAs that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- ISA 220, *Quality Control for an Audit of Financial Statements* – paragraphs 24–25
- ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 45–48
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph 30
- ISA 260 (Revised), *Communication with Those Charged with Governance* – paragraph 23
- ISA 300, *Planning an Audit of Financial Statements* – paragraph 12

<sup>1</sup> <https://www.ifac.org/system/files/publications/files/IAASB-Proposed-ISA-220-Revised-Explanatory-Memorandum.pdf>

- ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* – paragraph 32
- ISA 320, *Materiality in Planning and Performing an Audit* – paragraph 14
- ISA 330, *The Auditor's Responses to Assessed Risks* – paragraphs 28–30
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraph 15
- ISA 540, *Auditing Accounting Estimates and Related Disclosures* – paragraph 39
- ISA 550, *Related Parties* – paragraph 28
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 57~~9~~
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraph 36–37
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 25

## **ISA 240 – THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS**

### **Introduction**

...

### **Responsibility for the Prevention and Detection of Fraud**

...

#### *Responsibilities of the Auditor*

...

9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, including fraud, which may differ from or go beyond this and other ISAs, such as: (Ref: Para. A6)
  - (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
  - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
  - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

...

## Application and Other Explanatory Material

...

### Responsibility for the Prevention and Detection of Fraud

*Responsibilities of the Auditor* (Ref: Para. 9)

- A6. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other~~ between auditors within ~~the engagement team a group, including a group engagement partner, component auditors,~~ the engagement team or other auditors performing work at ~~components~~ entities or business units of a group for purposes other than the audit of the group financial statements.<sup>2</sup>

...

## ISA 250 (REVISED) – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

### Introduction

...

### Responsibility for Compliance with Laws and Regulations (Ref: Para. A1–A8)

...

*Responsibility of the Auditor*

...

9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this ISA, such as: (Ref: Para. A8)
- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
  - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
  - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

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<sup>2</sup> See, for example, Sections ~~225-24~~R360.16–225.22~~R360.18~~ of the IESBA Code.

...

## Application and Other Explanatory Material

### Responsibility for Compliance with Laws and Regulations (Ref: Para. 3–9)

...

#### *Responsibility of the Auditor*

...

Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

- A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations ~~to other between~~ auditors within the engagement team a group, including a group engagement partner, component auditors, or other auditors performing work at components entities or business units of a group for purposes other than the audit of the group financial statements.<sup>3</sup>

...

## ISA 260 (REVISED) – COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

...

## Application and Other Explanatory Material

### Those Charged with Governance (Ref: Para. 11)

....

- A4. ISA 600 (Revised) includes specific matters to be communicated by the group engagement team auditors with those charged with governance.<sup>4</sup> When the entity or business unit is a component part of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components entities or business units may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components entities or business units are the same (e.g., common board of directors), duplication may be avoided by dealing with these components entities or business units concurrently for the purpose of communication.

<sup>3</sup> See, for example, Sections ~~225.24R360.16–225.22R360.18~~ of the IESBA Code.

<sup>4</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~5649~~

## The Communication Process

*Establishing the Communication Process* (Ref: Para. 18)

...

### Communication with Third Parties

A43. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
- (b) That no responsibility is assumed by the auditor to third parties; and
- (c) Any restrictions on disclosure or distribution to third parties

...

## Appendix 1

(Ref: Para. 3)

### Specific Requirements in ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ISQC 1<sup>5</sup> and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 22, 39(c)(i) and 41–43
- ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 15, 20 and 23–25
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA 505, *External Confirmations* – paragraph 9
- ISA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7

<sup>5</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- ISA 550, *Related Parties* – paragraph 27
- ISA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA 570 (Revised), *Going Concern* – paragraph 25
- ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph ~~56~~<sup>49</sup>
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraphs 17—19

...

## **ISA 300 – PLANNING AN AUDIT OF FINANCIAL STATEMENTS**

...

### **Requirements**

...

#### **Planning Activities**

7. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
8. In establishing the overall audit strategy, the auditor shall:
  - (a) Identify the characteristics of the engagement that define its scope;
  - (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
  - (c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;
  - (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
  - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.  
(Ref: Para. A8–A11)
9. The auditor shall develop an audit plan that shall include a description of:

- (a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised).<sup>6</sup>
  - (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330.<sup>7</sup>
  - (c) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A12-A14)
10. The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A15)
11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)
- 11A. The engagement partner shall review the overall audit strategy and audit plan.

...

## Application and Other Explanatory Material

...

### Planning Activities

*The Overall Audit Strategy and Audit Plan* (Ref: Para. 7–89)

- A8. The process of establishing the overall audit strategy and audit plan assists the auditor to determine, subject to the completion of the auditor's risk assessment procedures, such matters as:
- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas or the involvement of experts on complex matters;
  - The amount of resources to be allocated to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the nature and extent of direction, supervision and review of component ~~other~~ auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
  - When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
  - How such resources are managed, directed and supervised, such as when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), and whether to complete engagement quality control reviews.
- A9. The Appendix lists examples of considerations in establishing the overall audit strategy.

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<sup>6</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*

<sup>7</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

**Appendix**

(Ref: Para. 7–8, A8–A11)

**Considerations in Establishing the Overall Audit Strategy**

This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor's detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

**Characteristics of the Engagement**

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit ~~coverage scope~~, including the ~~number and locations of components to be included~~ at which audit procedures are expected to be performed for purposes of a group audit, and the extent to which component auditors will be involved.
- The nature of the control relationships between a parent and its ~~components~~ entities or business units that determine how the group is to be consolidated.
- ~~• The extent to which components are audited by other auditors.~~
- The nature of the business segments to be audited, including the need for specialized knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The ~~requirement need for an audit of financial statements for statutory, regulatory or other reasons, audit of standalone financial statements~~ in addition to an audit procedures performed for consolidation purposes of a group audit.

...

**Reporting Objectives, Timing of the Audit, and Nature of Communications**

- The entity's timetable for reporting, such as at interim and final stages.
- The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
- Communication with component auditors ~~of components~~ regarding the expected types and timing of reports to be issued and other communications in connection with the audit procedures performed for purposes of the group audit ~~of components~~.

- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

### **Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements**

- The determination of materiality in accordance with ISA 320<sup>8</sup> and, where applicable:
  - The determination of component performance materiality ~~for components~~ and communication thereof to component auditors in accordance with ISA 600 (Revised).<sup>9</sup>
  - The preliminary identification of ~~significant components and~~ material classes of transactions, account balances and disclosures.

...

## **ISA 402 – AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION**

...

### **Application and Other Explanatory Material**

#### **Obtaining an Understanding of the Services Provided by a Service Organization, Including Internal Control**

...

*Further Procedures When a Sufficient Understanding Cannot Be Obtained from the User Entity* (Ref: Para. 12)

...

- A18. In some circumstances, a user entity may outsource one or more significant business units or functions, such as its entire tax planning and compliance functions, or finance and accounting or the controllership function to one or more service organizations. As a report on controls at the service organization may not be available in these circumstances, visiting the service organization may be the most effective procedure for the user auditor to gain an understanding of controls at the service organization, as there is likely to be direct interaction of management of the user entity with management at the service organization.
- A19. Another auditor may be used to perform procedures that will provide the necessary information about the relevant controls at the service organization. If a type 1 or type 2 report has been issued, the user auditor may use the service auditor to perform these procedures as the service auditor has an existing relationship with the service organization. The user auditor using the work of another auditor may find

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<sup>8</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>9</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs ~~21–23 and 40(e)~~29–30

the guidance in proposed ISA 220~~600~~ (Revised)<sup>10</sup> useful as it relates to determining the competence and capabilities of the other ~~understanding another~~ auditor (including that auditor's independence and professional competence), the direction and supervision involvement in the work of the other ~~another~~ auditor, in planning and the nature, timing and extent of such the work assigned to the other auditor, and in evaluating the sufficiency and appropriateness of the audit evidence obtained.

...

## ISA 501 – AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS

...

### Application and Other Explanatory Material

#### Inventory

*Attendance at Physical Inventory Counting* (Ref: Para. 4(a))

...

A3. Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs 4–8 of this ISA) include, for example:

- The risks of material misstatement related to inventory.
- The nature of the internal control related to inventory.
- Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.
- The timing of physical inventory counting.
- Whether the entity maintains a perpetual inventory system.
- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate. ~~ISA 600<sup>14</sup> deals with the involvement of other auditors and accordingly may be relevant if such involvement is with regard to attendance of physical inventory counting at a remote location.~~
- Whether the assistance of an auditor's expert is needed. ISA 620<sup>12</sup> deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

...

<sup>10</sup> Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* ~~600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~, paragraph 2, states: "An auditor may find this ISA, adapted as necessary in the circumstances, useful when that auditor involves other auditors in the audit of financial statements that are not group financial statements ..." See also paragraph 19 of ISA 600.

<sup>14</sup> ~~ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

<sup>12</sup> ISA 620, *Using the Work of an Auditor's Expert*

## ISA 550 – RELATED PARTIES

...

### Application and Other Explanatory Material

...

#### Risk Assessment Procedures and Related Activities

...

##### *Understanding the Entity's Related Party Relationships and Transactions*

...

The Identity of the Entity's Related Parties (Ref: Para. 13(a))

...

A13. In the context of a group audit, ISA 600 (Revised) requires the group engagement team to request component auditors to communicate on a timely basis related parties not previously identified by group management or the group engagement team provide each component auditor with a list of related parties prepared by group management and any other related parties of which the group engagement team is aware.<sup>13</sup> ~~Where the entity is a component within a group, this~~ Such information provides a useful basis for the auditor group engagement team's inquiries of management regarding the identity of ~~the entity's~~ related parties.

A14. The auditor may also obtain some information regarding the identity of the entity's related parties through inquiries of management during the engagement acceptance or continuance process.

#### **Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions** (Ref: Para. 20)

...

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the ISA 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls,<sup>14</sup> the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

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<sup>13</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph ~~41(a)~~~~40(e)~~

<sup>14</sup> ISA 330, paragraph 8(b)

*Identified Significant Related Party Transactions outside the Entity's Normal Course of Business*

Evaluating the Business Rationale of Significant Related Party Transactions (Ref: Para. 23)

A38. In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction:
  - Is overly complex (for example, it may involve multiple related parties within a ~~consolidated~~ group).
  - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
  - Lacks an apparent logical business reason for its occurrence.
  - Involves previously unidentified related parties.
  - Is processed in an unusual manner.
- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance.
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the transaction.

If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with ISA 500,<sup>15</sup> to consider the reliability of management's explanations and representations on other significant matters.

...

## **ISA 610 (REVISED 2013) – USING THE WORK OF INTERNAL AUDITORS**

...

### **Application and Other Explanatory Material**

#### **Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used**

...

##### *Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used*

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

A15. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall audit strategy and audit plan that the external auditor has established in accordance with ISA 300.<sup>16</sup>

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<sup>15</sup> ISA 500, *Audit Evidence*, paragraph 11

<sup>16</sup> ISA 300, *Planning an Audit of Financial Statements*

A16. Examples of work of the internal audit function that can be used by the external auditor include the following:

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.
- In some circumstances, the work performed on the financial information of entities or business units of a group audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of ISA 600).<sup>17</sup>

...

### **Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance**

*Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit* (Ref: Para. 5, 26–28)

A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant ~~for in the circumstances of a the group audit auditors for the group engagement team~~ to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.<sup>18</sup>

...

## **ISA 700 (REVISED) – FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS**

...

### **Requirements**

...

#### **Auditor's Report**

...

*Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing*

Responsibilities for the Financial Statements

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)

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<sup>17</sup> ~~ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*~~

<sup>18</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 2040(b)

- (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and
- (b) Describe an audit by stating that the auditor's responsibilities are:
  - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - (ii) To obtain an understanding of internal control relevant to the audit 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 entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
  - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
  - (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (c) When ISA 600 (Revised)<sup>19</sup> applies, further describe the auditor's responsibilities in a group audit engagement by stating that:
  - (i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence ~~regarding the financial information of the entities or business activities within the group to~~ as a basis for ~~expressing an~~ opinion on the group financial statements
  - (ii) The auditor is responsible for the direction, supervision and review ~~performance~~ of the group audit; and

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<sup>19</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (iii) The auditor remains solely responsible for the auditor's opinion.<sup>20</sup>

...

## Application and Other Explanatory Material

...

### Auditor's Report (Ref: Para. 20)

...

### *Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing*

...

### Basis for Opinion (Ref: Para. 28)

...

### Considerations specific to group audits

- A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.<sup>21</sup>
- A39. The ISAs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group engagement team is subject, nor do the ISAs require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA 600 (Revised)<sup>22</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

...

1. **Illustration 2 – Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**
2. **For purposes of this illustrative auditor's report, the following circumstances are assumed:**
  - **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**
  - **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**

<sup>20</sup> ISA 600 (Revised), paragraph 52

<sup>21</sup> ISA 600 (Revised), paragraph A36A37

<sup>22</sup> ISA 600 (Revised), paragraphs 20–2249–20

- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised).
- Key audit matters have been communicated in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Consolidated Financial Statements<sup>23</sup>

#### Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

<sup>23</sup> The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with ISA 701.]*

### **Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

*[Reporting in accordance with the reporting requirements in ISA 720 (Revised) – see Illustration 1 in Appendix 2 of ISA 720 (Revised).]*

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements<sup>24</sup>**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs,<sup>25</sup> and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

### **Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

<sup>24</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>25</sup> Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ...”

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.<sup>26</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to as a basis for expressing an opinion on the group-consolidated financial statements. We are responsible for the direction, supervision and review performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a

<sup>26</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]*

The engagement partner on the audit resulting in this independent auditor's report is [name].

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]*

*[Auditor Address]*

*[Date]*

...

## ISA 701 – COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

...

### Application and Other Explanatory Material

#### Determining Key Audit Matters (Ref: Para. 9–10)

...

#### *Matters that Required Significant Auditor Attention* (Ref: Para. 9)

...

A15. Various ISAs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.<sup>27</sup> The ISAs acknowledge potential difficulties in relation to, for example:
  - Related party transactions,<sup>28</sup> in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.

<sup>27</sup> ISA 260 (Revised), paragraphs 16(b) and A21

<sup>28</sup> ISA 550, *Related Parties*, paragraph A42

- Limitations on the group audit, for example, where ~~the group engagement team's~~ access to information or people may have been restricted.<sup>29</sup>
- ISA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.<sup>30</sup> For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit

...

## ISA 705 (REVISED) – MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

...

### Application and Other Explanatory Material

...

#### Circumstances When a Modification to the Auditor's Opinion Is Required

*Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence* (Ref: Para. 6(b))

- A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
- (a) Circumstances beyond the control of the entity;
  - (b) Circumstances relating to the nature or timing of the auditor's work; or
  - (c) Limitations imposed by management.
- A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.
- A10. Examples of circumstances beyond the control of the entity include when:
- The entity's accounting records have been destroyed.
  - The accounting records of a ~~significant~~ component for which further audit procedures are determined to be necessary for the purposes of the group audit have been seized indefinitely by governmental authorities.

...

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<sup>29</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 5649(d)

<sup>30</sup> ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

## ISA 720 (REVISED) THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

...

### Application and Other Explanatory Material

...

#### Reading and Considering the Other Information (Ref: Para. 14–15)

...

A24. In accordance with ISA 220,<sup>31</sup> the engagement partner is required to take responsibility for the direction, supervision and ~~review performance~~ of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this ISA, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgment involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

...

#### *Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit* (Ref: Para. 14(b))

A35. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team, ~~including or relevant component auditors,~~ is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor's recollection.

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<sup>31</sup> ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes inquiries of relevant members of the engagement team, including or relevant component auditors, is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make inquiries of relevant members of the engagement team, including or relevant component auditors, about any matter included in the other information.

...

## **ISA 805 (REVISED) – SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT**

### **Introduction**

#### **Scope of this ISA**

1. The International Standards on Auditing (ISAs) in the 100–700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This ISA deals with special considerations in the application of those ISAs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA 800 (Revised)<sup>32</sup> also applies to the audit. (Ref: Para. A1–A4)
2. This ISA does not apply to circumstances in which the report audit procedures are performed by of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see ISA 600 (Revised)).<sup>33</sup>
3. This ISA does not override the requirements of the other ISAs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

...

## **ISRE 2400 (REVISED) – ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL STATEMENTS**

...

### **Application and Other Explanatory Material**

#### **Scope of this ISRE (Ref: Para. 1–2)**

...

#### **~~Reviews of Financial Information of Components in the Context of an Audit of the Financial Statements of a Group of Entities~~**

<sup>32</sup> ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>33</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

~~A2. Review engagements in accordance with this ISRE may be requested for component entities by the auditor of the financial statements of a group of entities. Such a review engagement performed in accordance with this ISRE may be accompanied by a request from the group auditor to undertake additional work or procedures as needed in the circumstances of the group audit engagement.~~

...

## **Acceptance and Continuance of Client Relationships and Review Engagements (Ref: Para. 29)**

...

### *Agreeing the Terms of Engagement*

...

#### **Review of components of groups of entities**

~~A54. The auditor of the financial statements of a group of entities may request that a practitioner perform a review of the financial information of a component entity of the group. Depending on the instructions of the group auditor, a review of the financial information of a component may be performed in accordance with this ISRE. The group auditor may also specify additional procedures to supplement the work done for the review performed under this ISRE. Where the practitioner conducting the review is the auditor of the component entity's financial statements, the review is not performed in accordance with this ISRE.~~

...

## **Performing the Engagement**

...

### *The Practitioner's Understanding (Ref: Para. 45–46)*

...

A78. In obtaining an understanding of the entity and its environment, and of the applicable financial reporting framework, the practitioner may also consider:

- Whether the entity is a ~~component of part of~~ a group of entities, or an associated entity of another entity.
- The complexity of the financial reporting framework.
- The entity's financial reporting obligations or requirements, and whether those obligations or requirements exist under applicable law or regulation or in the context of voluntary financial reporting arrangements established under formalized governance or accountability arrangements, for example, under contractual arrangements with third parties.
- Relevant provisions of laws and regulations that are generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, such as tax and pension laws and regulations.
- The level of development of the entity's management and governance structure regarding management and oversight of the entity's accounting records and financial reporting systems that underpin preparation of the financial statements. Smaller entities often have fewer

employees, which may influence how management exercises oversight. For example, segregation of duties may not be practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties.

- The “tone at the top” and the entity’s control environment through which the entity addresses risks relating to financial reporting and compliance with the entity’s financial reporting obligations.
- The level of development and complexity of the entity’s financial accounting and reporting systems and related controls through which the entity’s accounting records and related information are maintained.
- The entity’s procedures for recording, classifying and summarizing transactions, accumulating information for inclusion in the financial statements and related disclosures.
- The types of matters that required accounting adjustments in the entity’s financial statements in prior periods.

...

*Designing and Performing Procedures* (Ref: Para. 47, 55)

...

~~A80. When the practitioner is engaged to review the financial statements of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the practitioner’s objectives for the review engagement stated in this ISRE, but in the context of the group financial statements.~~

...

*Inquiry* (Ref: Para. 46–48)

...

A88. The practitioner may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity’s non-compliance with laws and regulations, including fraud, which may differ from or go beyond this ISRE, such as:

- (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance and considering whether further action is needed;
- (b) Communicating identified or suspected non-compliance with laws and regulations to an auditor, for example a group engagement partner; and
- (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the practitioner’s work in accordance with this ISRE (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

...

Analytical Procedures (Ref: Para. 46–47, 49)

A90. In a review of financial statements, performing analytical procedures assists the practitioner in:

- Obtaining or updating the practitioner’s understanding of the entity and its environment, including to be able to identify areas where material misstatements are likely to arise in the financial statements.
- Identifying inconsistencies or variances from expected trends, values or norms in the financial statements such as the level of congruence of the financial statements with key data, including key performance indicators.
- Providing corroborative evidence in relation to other inquiry or analytical procedures already performed.
- Serving as additional procedures when the practitioner becomes aware of matter(s) that cause the practitioner to believe that the financial statements may be materially misstated. An example of such an additional procedure is a comparative analysis of monthly revenue and cost figures across business units ~~profit centers, branches or other components~~ of the entity, to provide evidence about financial information contained in line items or disclosures contained in the financial statements

...

## **ISRE 2410 – REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY**

...

### **Procedures for a Review of Interim Financial Information**

#### **Understanding the Entity and its Environment, Including its Internal Control**

...

16. The auditor determines the nature of the review procedures, if any, to be performed for components and, where applicable, communicates these matters to other auditors involved in the review. Factors to be considered include the materiality of, and risk of misstatement in, the interim component financial information ~~of components~~, and the auditor’s understanding of the extent to which internal control over the preparation of such information is centralized or decentralized.

...

#### **Inquiries, Analytical and Other Review Procedures**

...

21. The auditor ordinarily performs the following procedures:

- Reading the minutes of the meetings of shareholders, those charged with governance, and other appropriate committees to identify matters that may affect the interim financial information, and inquiring about matters dealt with at meetings for which minutes are not available that may affect the interim financial information.

- Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
- Communicating, where appropriate, with other auditors who are performing a review of the interim component financial information of the reporting entity's ~~significant components~~.
- ...

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# AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4.0**

Meeting Date: 9 June 2020

Subject: ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

Date Prepared: 2 June 2020

☒ Action Required

☐ For Information Purposes Only

## Agenda Item Objectives

1. For the AUASB to consider:
  - ASRE 2410 which has been updated to respond to the feedback received on ED 01/19 ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 01/19);
  - How the comments have been addressed as detailed in the *ASRE 2410 Disposition of Comments* paper; and
  - The differences between NZ SRE 2410 and ASRE 2410 and whether they are appropriate.
2. Dependent on the above, approve ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* for issue, and the related Explanatory Statement.
3. Provide feedback on the *ASRE 2410 Basis for Conclusions*.

## Background

4. Consistent with the AUASB's principle of harmonisation with New Zealand, the AUASB agreed to develop an Exposure Draft in Australia concurrently with the NZAuASB, which incorporates the changes to the auditor's review report as a result of the enhanced auditor's report. In addition, it was agreed it was appropriate to include conforming amendments as a result of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR).
5. The AUASB issued [Explanatory Memorandum and Exposure Draft 01/19](#) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410. Refer to the Explanatory Memorandum for information about ED 01/19, and the AUASB's approach to implementing this standard in Australia.

*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.*

6. The NZAuASB had alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern. The AUASB issued Addendum to Explanatory Memorandum Exposure Draft 01/19 on 19 July 2019 to communicate this to Australian stakeholders and to seek feedback on this matter.
7. Based on feedback received, the AUASB concluded at its meeting on 21 April 2020, to not include the auditor's responsibility in relation to going concern in the review report due to the complexity of going concern in a limited assurance environment, and to avoid the potential for misunderstanding by using 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 the context of the entire auditor's responsibilities and reporting. The NZAuASB also reached this conclusion. Both boards also agreed also to not include the management's responsibility for going concern in the auditor's review report.
8. At its meeting on 19 September 2019 the AUASB discussed other feedback received on ASRE 2410 and agreed with the recommendations made by the ATG including adding a requirement for a specific inquiry for the existence of actual or suspected non-compliance with laws and regulations. The AUASB also confirmed their original decision to not require an "Other Information" paragraph in the review report.
9. NZAuASB have tentatively approved NZ SRE 2410 subject to the AUASB's final approval.
10. The ATG have provided ASRE 2410 in a marked up from ED 01/19 version, and a clean copy to facilitate the AUASB's review. The ATG will refer to the marked up version.

## **Matters to Consider**

### ***Comments received on ED 01/19***

11. The AUASB have already considered some of the feedback received on ED 01/19 at previous meetings. Refer to the *ASRE 2410 Disposition of Comments* paper which includes all feedback and how this has been addressed by the ATG. The following is a summary of the key feedback.
12. NOCLAR - All respondents supported the inclusion of NOCLAR amendments to ASRE 2410, however several respondents requested further inclusion of requirements from ASA 250 as follows:
  - (a) Link to other ethical responsibilities related to NOCLAR;
  - (b) To include a specific requirement to make enquiries as to NOCLAR;
  - (c) To more fully address what the auditor is required to do when they become aware of NOCLAR;
  - (d) To better reflect the communications that the auditor would need to undertake; and
  - (e) To include more explicit documentation requirements related to NOCLAR.

The AUASB previously discussed to make references to ASA 250 rather than include all detail in ASRE 2410. The following changes have been made to ASRE 2410:

- (a) Reference to ASA 102 for the ethical requirements;
- (b) Include a cross reference to ASA to include a specific requirement to make enquiries about NOCLAR;
- (c) Additional application material to include guidance when law or regulation may restrict the auditor's communications; and

- (d) Cross reference to ASA 250 for guidance including where there may be additional communication required.

#### *Compliance Frameworks*

13. Whilst respondents were in favour of the inclusion of compliance frameworks explicitly ASRE 2410 many commented that this would be used rarely. Some respondents noted areas where ASRE 2410 still referred to fair presentation only. The AUASB have amended ASRE 2410 as appropriate.

#### *Other feedback received*

14. One respondent recommended that the auditor of the entity be defined to clarify that it means the auditor of the entity's annual financial statements. The ATG considered that the scope of ASRE 2410 was clear in paragraph 3.
15. In outreach in New Zealand and in submissions received by the AUASB, practitioners have queried what the auditor is required to do in the year they are first appointed as the auditor (i.e. have not actually audited the annual financial statements yet). The ATG consider that this is an existing gap in ASRE 2410, and would require clarification or addition of the procedures to be performed, which is outside of the agreed scope of the current project.
16. One respondent encouraged the AUASB to consistently apply the relevant reporting changes to the full suite of review standards. The ATG consider this is beyond the agreed scope of the current project and recommend that no further action is taken ahead of the IAASB post implementation review.
17. Several respondents suggested further enhancements to ASRE 2410 in relation to the procedures an auditor performs in relation to going concern. The AUASB have discussed this previously and agreed this to be beyond the scope of this project.
18. Use of the term management verses those charged with governance to be reconsidered for consistency. The AUASB have concluded that ASRE 2410 shall use the term "management and where appropriate, those charged with governance" consistently throughout except for where it was appropriate to use the term those charged with governance, for example going concern inquiry which is in extant ASRE 2410.
19. Editorial comments have been addressed.
20. The following includes the matters which the ATG wish to bring to the AUASB's attention.

Comments received	How addressed in ASRE 2410
<p>One responded noted an inconsistency between the requirements in ASRE 2410 and the illustrative example reports. This was due to the wording "Based on our review, which is not an audit" appears in the Basis for Conclusion section in the illustrative examples, but this wording is not included in the required elements of the auditor's review report. The respondent did not give a view as to whether this should be a requirement of removed from the illustrative example reports. The ATG note the following:</p> <ul style="list-style-type: none"><li>• This wording is in extant ASRE 2410 illustrative examples, however is not in the requirements;</li><li>• No other respondents raised this as an issue;</li></ul>	<p>The ATG concluded to leave this in the illustrative review reports, however the ATG do not consider it necessary to include a specific requirement to include this wording in the review report. The basis for this is that ATG considered the inclusion of "which is not an audit" is beneficial to provide additional clarity as to the nature of the engagement, is in the illustrative examples which were in ED 01/19 and no other respondents raised this as an issue, and is being included in review reports in practice.</p>

<ul style="list-style-type: none"> <li>• We have observed that this term is included in the auditor’s review reports that we reviewed which were issued on March 2020 half years;</li> <li>• NZ SRE 2410 includes the term “Based on our review,” in their illustrative examples, but does not include “which is not an audit”. This is not in their requirements either.</li> </ul>	
<p>One respondent noted that “We believe that the [audit] evidence we have obtained is sufficient and appropriate to provide a basis for our opinion/[conclusion]” as required by ASA700 28 (d) is not included in ASRE 2410.</p>	<p>The ATG do not consider it necessary to include this in the review opinion as this terminology may be misunderstood by users as may infer reasonable assurance.</p>
<p>One responded recommended that the auditor’s responsibilities described in the review report could be more closely aligned with those detailed in the auditor’s report under ASA 700. For example, in addition to “making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures” (which addresses the procedures in para. 16), other key procedures in ASRE 2410 that should be described in the review report include:</p> <ul style="list-style-type: none"> <li>• Understanding of the entity and its environment, including its internal control, sufficient to plan and conduct the engagement so as to be able to identify the types of potential material misstatements and consider the likelihood of their occurrence, and select the enquiries, analytical and other review procedures that will provide the auditor with a basis for their review conclusion (para. 13)</li> <li>• Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements (para. 15)</li> <li>• Obtaining evidence that the financial report agrees or reconciles with the underlying accounting records. (para. 17)</li> <li>• When a matter comes to the auditor’s attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, making additional enquiries or perform other procedures to enable the auditor to express a conclusion in the auditor’s review report. (para. 20)</li> </ul>	<p>Not raised by other respondents. The ATG consider the auditor’s responsibilities adequately described in ASRE 2410.</p>
<p>One respondent recommended that ASRE 2410 should include a requirement for obtaining written representations from management and, where appropriate, from those charged with governance, regarding their plans for future actions and the feasibility of these plans and appropriately reference the requirements to paragraph 16(e) of ASA 570 on <i>Going Concern</i>.</p>	<p>The NZ SRE 2410 includes a requirement for a representation on going concern (refer below) which is an existing difference to extant ASRE 2410. The representation required by ASA 570 is only required if there are events or conditions. The ATG have not added a requirement to ASRE</p>

	2410 as this is outside the scope of this project, and auditors will do this under ASA 570 if necessary.

### *Questions for the AUASB*

1. Do you agree with the ATG's conclusions included above?
2. Are there any matters in the *ASRE 2410 Disposition of Comments paper* which the AUASB do not agree they have been addressed by the ATG?

### ***Conformity with updated NZ SRE 2410***

21. The ATG have worked with the NZAuASB technical staff throughout this project with the objective to update ASRE 2410 consistent with NZ SRE 2410 (revised). The AUASB has compared both standards to identify where different and if it is appropriate for these to be different. Importantly the requirements in updated ASRE 2410 and NZ SRE 2410 are consistent.
22. The updates to NZ SRE 2410 and ASRE 2410 are consistent except the following additional changes, mainly to application material, which have been made by the ATG in the revised ASRE 2410. These yet to be considered by the NZAuASB.
  - (a) Heading after paragraph 48 "Going Concern and a Material Uncertainty exists" changed to "Going Concern and Material Uncertainties", sub heading "Use of the going concern basis of accounting is appropriate but a material uncertainty exists" changed to "Use of the going concern basis of accounting is appropriate".

This was to use limited assurance language, and to not infer a requirement to conclude on whether a MURGC exists. The requirements under these headings are consistent with NZ SRE 2410.

- (b) A45 includes "Refer to ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* for guidance as to appropriate wording to use when issuing a modified conclusion".

This was included in ED 01/19 paragraph 40 as a requirement. The ATG removed this as not considered appropriate to include as a requirement however have added to the application material as guidance. This was not included in NZAuASB's ED.

- (c) A55 "A Material uncertainty Related to Going Concern section is preferably included after the Basis for Conclusion section" has been added.

This was in response to two respondents who requested guidance be included on the order of the review report. Also note this was included in extant ASRE 2410 paragraph A50 which was removed from ED 01/19. The ATG concluded it was appropriate to add this back to ASRE 2410.

- (d) A56 "Ordinarily, a significant uncertainty in relation to any other matter, the resolution of which may materially affect the financial report, would warrant an emphasis of matter paragraph, in the auditor's review report. Refer to ASA 706 for guidance on the location of an emphasis of matter paragraph".

The first sentence in A56 is in extant ASRE 2410 and was removed as was considered no longer necessary as the terminology was changed to MURGC. This resulted in no

application material for Emphasis of Matters. The ATG have reconsidered and consider this helpful in the situations when an EOM is appropriate and have added this back to ASRE 2410. Also have added the reference to ASA 706 to address the feedback about the order of the review report.

- (e) A57 “The auditor’s review report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the assurance practitioner’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

This was raised by a respondent that there are scenarios of reviews of special purpose financial statements which wasn’t been considered in ASRE 2410.

23. The NZAuASB have approved NZ SRE 2410 subject to the AUASB’s consideration of the final standard. If the AUASB agree with inclusion of the points in paragraph 18, the NZAuASB will reconsider at an upcoming meeting. This may result in a difference between the two standards, however note that is only in the application material.

#### *Questions for the AUASB*

1. Does the AUASB agree with the amendments included in paragraph 22?
2. If the NZAuASB do not agree with these changes, do the AUASB consider it appropriate to include these and have a difference in these areas?

24. The description of the auditor’s responsibilities in the illustrative example review reports are slightly different (second paragraph). This difference is from the illustrative example review reports included in the extant standards. The ATG consider both comply with the requirements of the standard, however have been drafted slightly differently. The ATG do not recommend a change to the AUASB’s illustrative examples.

#### *ASRE 2410 Auditor’s responsibility in illustrative examples*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial report does not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the [entity] as at [date] and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *NZ SRE 2410 Auditor’s responsibility in illustrative examples*

Our responsibility is to express a conclusion on the [period] financial statements based on our review. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial statements, taken as a whole, are not prepared in all material respects, in accordance with the [applicable financial reporting framework].

A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review

procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on those [period] financial statements.

Does the AUASB agree with the ATG's recommendation in paragraph 24? Or consider the auditor's responsibility paragraphs should be the same?

25. The following table includes the existing differences between extant ASRE 2410 and NZ SRE 2410. These differences continue to exist and the ATG do not recommend any changes.

<b>Included in ASRE but not in NZ SRE 2410</b>		
Para 7	<p>Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement in this Auditing Standard, the auditor shall:</p> <ul style="list-style-type: none"> <li>(a) if possible, perform appropriate alternative procedures; and</li> <li>(b) document in the working papers: <ul style="list-style-type: none"> <li>(i) the circumstances surrounding the inability to comply;</li> <li>(ii) the reasons for the inability to comply; and</li> <li>(iii) justification of how alternative procedures achieve the objectives of the requirement.</li> </ul> </li> </ul> <p>When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report.</p>	An AU paragraph in ASA 200.
Para A37	A37 For a review of a half-year financial report under the Corporations Act 2001 (Act), withholding the issuance of the auditor's review report and/or withdrawing from the review engagement are not options available under the Act. (Ref: Para. 30)	Corporations Law difference
<b>Included in NZ SRE but not in ASRE 2410</b>		
Para 10	The auditor shall comply with the engagement quality control requirements of ISA (NZ) 220 <sup>1</sup> when performing a review engagement in accordance with this NZ SRE 2410.	ASRE 2410 A6 includes that guidance in ISA 220 may be helpful. Previously agreed with the AUASB not to include this as a requirement.

<sup>1</sup> ISA (NZ) 220, Quality Control for an Audit of Financial Statements.

Para 25 (h)	(required representations) They have disclosed to the auditor all information relevant to the use of the going concern basis of accounting.	Refer above paragraph 20 above for discussion on this matter.
Para 36 (d)	Includes a statement as to the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity or any of its subsidiaries.	An existing difference in NZISA 700 as well. Not in ASA 700 so not necessary for ASRE 2410.
	Differences in the use of terms Those charged with governance vs management	Existing difference in ASAs and ISAs as well.

*Question for the AUASB*

Do you agree with the ATG recommendation to not amend ASRE 2410 for these existing differences?

**Other matters**

26. The operative date included in ED 01/19 was for financial reporting periods commencing on or after 1 January 2020 with early adoption permitted. Respondents had no concerns with the relatively short implementation period given that the amendments are mainly to the reporting format and do not significantly alter the procedure performed. Due to the delay in finalising ASRE 2410 the ATG have amended the operative date to be for financial report periods commencing on or after 1 July 2020 with early adoption permitted. This will result in December 2020 review reports being the first adopters of the new requirements. This is consistent with NZ SRE 2410.

*Question for the AUASB*

Do you agree with the operative date?

27. Extant ASRE 2410 includes a statement that it conforms with ISRE 2410, and that compliance with this standard enables compliance with ISRE 2410. The ATG have reviewed ISRE 2410 and confirm that they agree with this statement.

*Question for the AUASB*

Based on this does the AUASB have any comments on the Conformity Statement?

28. The Explanatory Statement is standard format and is a statutory requirement explaining the purpose of the issuance of the standard.

*Question for the AUASB*

Do you have any comments on the Explanatory Statement?

29. The Basis for Conclusions is issued to explain the due process the AUASB followed and how the AUASB responded to comments on exposure. The Basis for Conclusions is a staff paper and is not required to be formally approved by the AUASB. However the ATG are looking for feedback on this document, and in particular the detail provided on the going concern matter.

*Question for the AUASB*

Do you have any comments on the Basis for Conclusions?

### **Conclusion**

30. The ATG consider all matters raised by respondents to ED 01/19 have been appropriately addressed. Subject to final quality review by the ATG, based on the above, the ATG recommend that the AUASB approve for issue ASRE 2410 and the Explanatory Statement.

*Question for the AUASB*

Do you approve ASRE 2410 and the Explanatory Statement?

### **Material presented**

Agenda Item	4.0 AUASB Board Meeting Summary Paper
	4.1 ASRE 2410 Disposition of Comments Paper
	4.2 ASRE 2410 Standard clean copy
	4.3 ASRE 2410 Standard track changes from ED
	4.4 ASRE 2410 Explanatory Statement
	4.5 ASRE 2410 Basis for Conclusions



# AUASB Comments Received and Proposed Disposition Paper

<b>AGENDA ITEM NO.</b>	<b>4.1</b>
<b>Meeting Date:</b>	9 June 2020
<b>Subject:</b>	Comments received on Exposure Drafts – ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410 <i>Review of a Financial Report Performed by the Auditor of the Entity</i>
<b>Date Prepared:</b>	1 June 2020
<b>Document Type:</b>	Exposure Draft
<b>Proposed Title:</b>	ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410 <i>Review of a Financial Report Performed by the Auditor of the Entity</i>

	Page Number
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## LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
Deloitte	Deloitte Touche Tohmatsu	12 August 2019
CA ANZ	Chartered Accountants Australia and New Zealand	26 August 2019
KPMG	KPMG	28 August 2019
GT	Grant Thornton Australia Limited	28 August 2019
PwC	PricewaterhouseCoopers	30 August 2019
CPA	CPA Australia Ltd	30 August 2019
BDO	BDO Australia Ltd	30 August 2019
EY	Ernst & Young	30 August 2019

**EXHIBIT 1: Comments received on Exposure Drafts – ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410  
Review of a Financial Report Performed by the Auditor of the Entity**

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
1	Do you agree with the scope and key proposals to incorporate the auditor's reporting requirements made to the auditor's report consistently into the auditor's review report?	<p><u>Deloitte</u></p> <p>We agree with the scope and key proposals included within ED 01/19 as we understand that these proposed updates to ASRE 2410 are not intended to be all-encompassing and are an interim solution to provide consistency and reduce stakeholder confusion, whilst waiting for the IAASB to include ISRE 2410 on their work agenda for reassessment and updating.</p> <p>We acknowledge that the areas of Key Audit Matters and Other Information, and determining their applicability to review engagements, are significant and complex. Thus we agree with the AUASB's approach of specifically excluding these from ED 01/19 and wait for actions and decisions to be made by the IAASB based on results of their Auditor Reporting post implementation review.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>CA ANZ</u></p> <p>We agree with the scope and key proposals. Since the auditor's report was enhanced, there has been divergence in practice in relation to the format and content of interim review reports. While the AUASB's Bulletin, Auditor review reports – the impact of the new auditor reporting requirements was a good initiative and well received, it does not completely alleviate this divergence. Therefore, we would prefer it to be mandated within a standard as opposed to just optional guidance.</p>		
		<p><u>KPMG</u></p> <p>We agree with the scope and key proposals to incorporate the relevant auditor's reporting requirements into the auditor's review report.</p> <p>However, we wish to raise the following items to the AUASBs attention.</p> <p><b>Global consistency:</b> We consider global convergence of auditing standards, where possible, to be fundamentally important to achieving audit quality and consistency in</p>		

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
		<p>global practice. We strongly encourage the AUASB to closely monitor updates in the IAASBs work plan, including international updates to the review suite of standards and any changes resulting from the IAASB's Auditor Reporting post implementation review, with the objective of global convergence/consistency.</p> <p><b>Other review standards:</b> We believe that the AUASB should consistently incorporate the relevant reporting changes, to the full suite of Australian review standards. We believe consistent application is necessary to avoid differential performance and reporting requirements for practitioners in applying the review standards. To illustrate this point, ASRE 2400.Aus87.1 requires the auditor to add an Emphasis of Matter paragraph to the assurance practitioner's report (to highlight a material uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern) however proposed ASRE 2410 requires a "Material Uncertainty Related to Going Concern".</p> <p><b>Application of Key Audit Matters (KAMs) to Review Reports:</b> We agree with the AUASB that it is not an appropriate time to consider including KAMs in auditor's review reports. Further, the premise of a review engagement is a limited level of assurance and involves limited procedures such as analytical review and enquiry etc. To include "key audit/review matters" in a review report may imply that we had undertaken more test procedures, at a higher level of precision, and provided a greater level of assurance, than limited assurance is designed to give.</p> <p><b>Other Information reporting requirements:</b> We agree with the AUASB that it is not an appropriate time to consider including Other Information reporting requirements in auditor's review reports and that any further considerations should be made following the IAASB's Auditor Reporting post implementation review.</p>	<p>Noted but not within scope of update to ASRE 2410</p> <p>Agree with ED 01/19 and no issues raised</p> <p>Agree with ED 01/19 and no issues raised</p>	<p>N</p> <p>N</p> <p>N</p>
		<p><u>GT</u></p> <p>We welcome the proposed changes to the scope and key proposals. Since the introduction of the revised ASA 701, there has been confusion in on the format for review opinions. We welcome the amendment to the standard in place of the extant guidance provided by the AUASB which, while well-received, did not create the harmonisation required.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>

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		<u>PwC</u> Yes.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u> Yes, we are supportive of the scope and key proposals which provide consistency between the interim review report and the annual auditor's report.	Agree with ED 01/19 and no issues raised	N
		<u>BDO</u> Yes, on balance, we agree with the scope and key proposals to incorporate the auditor's reporting requirements made to the auditor's report. This ensures consistency in reporting and adopts the guidance from the previous AUASB Bulletin.	Agree with ED 01/19 and no issues raised	N
		<u>EY</u> Overall, we support the proposed amendments outlined in ED 01/19 which aim at enhancing the current ASRE 2410 by aligning the format and content, where applicable to a review engagement, of the auditor's review report in ASRE 2410 to the auditor's report requirements in ASA 700 <i>Forming an Opinion and Reporting on the Financial Report</i> , ASA 705 <i>Modifications to the Opinion in the Independent Auditor's Report</i> and ASA 706 <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> and the conforming amendments, relevant to a review engagement, as a result of recent changes to ASA 250 <i>Considerations of Laws and Regulations in the Audit of a Financial Report</i> .	Agree with ED 01/19 and no issues raised	N
2	Do you agree with the proposed amendments to incorporate conforming amendments as a result of the IAASB's project regarding non-compliance	<u>Deloitte</u> We agree with the AUASB's proposed amendments regarding NOCLAR which updates wording to be consistent with ASA 250 and expands the requirements when a matter comes to the auditor's attention.	Agree with ED 01/19 and no issues raised	N
		<u>KPMG</u>	Agree with ED 01/19	N

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	with laws and regulation (NOCLAR)?	<p>We agree with the proposed amendments to incorporate conforming amendments in the proposed ASRE 2410 as a result of the IAASB's (and IESBA's) projects regarding non-compliance with laws and regulations.</p> <p>As discussed at 1) above, we believe the conforming amendments should be consistently applied to the full suite of Australian review standards and the IAASB suite of review standards to achieve consistency in global practice.</p> <p>NOCLAR</p> <p>The NOCLAR related amendments in proposed ASRE 2410 do not appear to cover the extent of the auditors obligations covered in ASA 250 <i>Consideration of Laws and Regulations in an Audit of a Financial Report</i> and where relevant, APES 110 <i>Code of Ethics for Professional Accountants</i> including:</p> <ul style="list-style-type: none"> <li>• Communication with Respect to Groups (ASA 250.9(b))</li> <li>• Documentation requirements (ASA 250.9(c) and ASA 250.30)</li> </ul> <p>We observe that this could be addressed in a similar way to Proposed ASRE 2410.A36.</p> <p>e.g. Auditors conducting a review engagement under this auditing standard are not required to comply with ASA 250. However, ASA 250 includes guidance which may be useful.</p> <p>Other matters</p> <p>We have included additional observations and considerations for the AUASB in Appendix 3 to this letter.</p>	<p>No impact on ED 01/19 to be considered</p> <p>Addressed through additional requirement (ASRE 2410 para 20) and communication application material includes a cross reference to ASA 250 (Para A40 – A41)</p> <p>Refer exhibit 2</p>	Y
		<p><u>GT</u></p> <p>The consequential amendments from ASA 250, appear to not address all areas noted in paragraph 23 – 25. We would recommend referring to ASA 250 to highlight the</p>	<p>Addressed through additional requirement (ASRE 2410 para 20) and communication application material</p>	Y

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		complexity in assessing this area for discussion and conclusion in relation to the impact on the review.	and cross reference to ASA 250 (Para A40 – A41)	
		<u>PwC</u> Yes, for the purpose of consistency and overall compliance with the ethical standards.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u> Yes, we support amendments to reflect NOCLAR so that practitioners are clear on their responsibilities with respect to following up on instances of or suspected NOCLAR when conducting reviews. However, we consider that the applicable requirements of the APES 110 with respect to NOCLAR need to be more fully addressed in the revised standard. Whilst APES 110 provides two sets of NOCLAR requirements, one for “audits of financial statements” (APES 110 paragraphs 225.12-.38 which are reflected in ASA 250) and another for “professional services other than audits of financial statements” (APES 110 paragraphs 225.39-.56), we consider that the NOCLAR requirements for “audits of financial statements” are appropriate for review engagements conducted by the auditor of the entity. The NOCLAR requirements for “professional services other than audits of financial statements” address communication with the external auditor, which is not applicable to engagements under ASRE 2410. The AUASB seems to have also reached that view as ED 01/19 directs auditors to ASA 220 for guidance. The revised ASRE 2410 should clearly link to these requirements in APES 110 by way of footnote. ASA 220 is also useful in drafting additional requirements.  Whilst additional requirements for NOCLAR are included in paragraph 30 of the ED, we consider that the following amendments are also needed:  a) Inclusion of requirements under the heading “Enquiries, Analytical and Other Review Procedures” for:  (i.) the auditor to enquire about whether the entity is aware of any NOCLAR (See ASA 250 paragraph 15), and	ASRE 2410 references to ASA 102 which includes the ethical requirements relevant to a review and ASA 250.  Addressed through additional requirement (ASRE 2410 para 20) and communication application material and a reference to ASA 250 (Para A40 – A41)	Y

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		<p>(ii.) if the auditor becomes aware of an instance or suspects NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has occurred, as well as further information to evaluate the possible effect on the financial report (See ASA 250 paragraph 19).</p> <p>b) Amendment of paragraph 30 to better reflect the communications the auditor would need to undertake under APES 110. In particular, rather than requesting “management’s assessment of the effect on the financial report” (subparagraph 30(b)), we consider there should be a requirement to address the circumstance where management or those charged with governance (TCWG) may be involved in the NOCLAR and consider the need to obtain legal advice. (See ASA 250, paragraphs 25).</p> <p>We support reference to ASA 250 as a source of guidance. However, we consider that this reference would be better placed in paragraph A39, which is directly referenced in paragraph 30 with respect to the NOCLAR requirement. The reference in subparagraph A20(d)(xv) to ASA 250 could also be retained if it was linked to a requirement for enquires regarding NOCLAR as suggested in (a) above.</p>	Reference to ASA 250 has been added to A39 and enquiry has been linked to A20	
		<p><u>BDO</u></p> <p>Yes, we support inclusion of the conforming amendments with respect to NOCLAR.</p>	Agree with ED 01/19 and no issues raised	N
3	Do you agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly in the scope of ASRE 2410?	<p><u>Deloitte</u></p> <p>Given that ASRE 2410 is predominantly used for listed entity half-year financial report review engagements and other types of financial report review engagements prepared in accordance with a fair presentation framework, we don’t believe there are many practical instances where a financial report prepared in accordance with a compliance framework would be reviewed by the auditor (as these types of engagements would commonly fall under the realm of ASRE 2405 instead).</p> <p>We don’t disagree with the AUASB’s proposed amendments to include reviews of financial reports prepared in accordance with a compliance framework implicitly within</p>	Noted not used very often but supportive of inclusion.	N

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		ASRE 2410 for completeness purposes, however we do not think it is critical as it is not the key focus area or use of the standard.		
		<p><u>CA ANZ</u></p> <p>While we acknowledge reviews of interim financial reports prepared in accordance with compliance frameworks are not inconceivable, we expect them to be rare. If ASRE 2410 is to also include reference to compliance frameworks, we have the following observations:</p> <ul style="list-style-type: none"> <li>• Appendix 2, detailed procedure 9 (page 45 of the ED) uses the term “fairly presented.”</li> <li>• Paragraph A2 appears to only address fair presentation frameworks.</li> <li>• The fifth bullet on page 32 of the ED appears to be inconsistent with the amendments to paragraph 11(a).</li> <li>• Paragraph 35(a) appears to be inconsistent with the amendments to paragraph 11(a).</li> </ul>	<p>Agree with ED 01/19 and no issues raised</p> <p>Addressed</p> <p>Addressed</p> <p>Addressed</p> <p>Addressed</p>	N
		<p><u>KPMG</u></p> <p>In our experience, whilst rare, it is possible for financial reports to be prepared in accordance with a compliance framework and be subject to a review that meets the scope of ASRE 2410. Including for example,</p> <ul style="list-style-type: none"> <li>• Interim Financial Reports prepared by a component of a Group for Group consolidation purposes;</li> <li>• Completion Financial Reports prepared in accordance with a purchase/sale agreement between a buyer and seller;</li> <li>• Financial Reports prepared in connection with a transaction, such as an Initial Public Offering;</li> </ul>	<p>Agree with ED 01/19 and no issues raised</p>	N

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		<ul style="list-style-type: none"> <li>Other Financial Reports or complete sets of financial statements prepared in connection with other contracts, agreements or regulations.</li> </ul> <p>In the absence of existing guidance, practitioners may have reverted to the requirements and guidance in other auditing standards, such as ASRE 2405 <i>Review of Historical Financial Information Other than a Financial Report</i>, to appropriately deal with the form and content of the auditor's review report and conduct of the review.</p> <p>To create consistency in practice and greater clarity for auditors, we therefore agree with including reviews of financial reports prepared in accordance with a compliance framework explicitly within the scope of proposed ASRE 2410.</p> <p>We are also aware of other jurisdictions that include compliance frameworks within the scope of their equivalent standards, including the New Zealand's NZ SRE 2410 <i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i> and ISA 2410 <i>Review of Interim Financial Information performed by the Independent Auditor of the Entity</i>.</p>		
		<p><u>GT</u></p> <p>The proposed amendments to ASRE 2410 are similar to the amendments to ASRE 2400 <i>Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity</i>. If the proposed amendments to ASRE 2410 are to bring in the compliance framework, there are current drafting issues around consistency, specifically paragraph 33(e) and paragraph 36 that would need to be considered.</p>	Paragraphs are correct.	
		<p><u>PwC</u></p> <p>Yes, as the financial reports subject to review by the auditor of an entity are at times prepared in accordance with a compliance framework. It is therefore beneficial to explicitly include them within the scope of the standard.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>CPA</u></p> <p>Whilst we agree that theoretically reviews by the auditor of the entity under a compliance framework may occur, in addition to reviews under a fair presentation framework, we</p>		

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		<p>believe in practice this scenario would very rarely arise as the standard is applicable primarily to interim reviews required under the Corporations Act. Therefore, we suggest that minimum attention be given to compliance frameworks.</p> <p>We recommend that the definition in paragraph 5 of financial reporting framework could be revised to reference compliance frameworks, but then include the statement along the lines that “this standard does not address the circumstance where a review is conducted by the auditor of the entity on a financial report prepared under a compliance framework as it is expected to rarely occur. However, the requirements can be adapted for that purpose.”</p> <p>Furthermore, we suggest deletion of the example report: Example F - Unmodified Auditor’s Review Report on a Financial Report Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Compliance as we believe it will only serve to cause confusion regarding the appropriate auditor’s review report to use. Likewise, the following paragraphs and footnote could be deleted or amended: 33(e)(iii), A41 and footnote 20 on page 38.</p> <p>We also recommend reinstating the references to fair presentation frameworks in paragraphs 11(a) and 35(a), and the retention of a reference to fair presentation framework in paragraph A2, the conformity statement, and Appendix 2 illustrative procedures.</p>	<p>Have included compliance engagements.</p> <p>Have amended 11a to include fair presentation where relevant. No change made to 35a as covered by 36.</p>	
		<p><u>BDO</u></p> <p>Yes, we agree with broadening the scope of ASRE 2410 to include reviews of financial reports prepared in accordance with a compliance framework. This ensures consistency with ISRE 2410 and is consistent with ASRE 2405, which already considers compliance frameworks.</p>	Agree with ED 01/19 and no issues raised	N
4	Do you agree with how the responsibilities of management for the	<p><u>Deloitte</u></p> <p>We agree with how the responsibilities of management for the financial report and the auditor’s responsibilities for the review of the financial report are described in the auditor’s review report, which include enhanced disclosures about the responsibilities of</p>	Responsibilities for going concern not	Y

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	financial report, and the auditor's responsibilities for the review of the financial report, are described in the auditor's review report? Refer to paragraph 18 and 19 for detail on the AUASB's deliberations.	<p>both parties relating to going concern, except for the following points with respect to the auditor's responsibilities section:</p> <ul style="list-style-type: none"> <li>The opening sentence reads as follows:</li> </ul> <p><i>"We make enquiries about whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern."</i></p> <p>The above wording seems to be appropriate for a recurring review engagement (which would be predominantly applicable to a listed entity), but this may not be the case for an initial review engagement or a review engagement other than for a listed entity, as it relies on and builds on previous knowledge and information.</p> <p>We recommend that the AUASB reassesses the proposed wording to reconsider whether it is applicable in all situations and if not, determine whether changes are required to the wording or further guidance should be provided.</p> <ul style="list-style-type: none"> <li>The second part of the section reads as follows:</li> </ul> <p><i>"When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern:</i></p> <p><i>(a) we enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and</i></p> <p><i>(b) we consider the adequacy of the disclosure about such matters in the financial report."</i></p> <p>Unlike the auditor's responsibilities section of the auditor's report under ASA 700, the proposed wording doesn't extend to include reference to the situation whereby the outcome of parts (a) and (b) as per above are insufficient or inadequate, and the auditor would modify their conclusion.</p> <p>We recommend that the AUASB reassesses the proposed wording to reconsider whether it is applicable to extend the wording to refer to the situation when a modified conclusion</p>	<p>included in review report.</p> <p>Refer to Basis for Conclusion</p>	

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		<p>would apply, which aligns conceptually with the equivalent paragraph in the ASA 700 auditor's report.</p> <p>We also specifically highlight that it is appropriate for management's responsibilities for going concern to be consistent with that included in ASA 700 relating to audits of financial reports, whereas the auditor's responsibilities for the review of a financial report are less onerous than for an audit and thus the wording in the auditor's review report is different to that included in the auditor's report as per ASA 700.</p>		
		<p><u>CA ANZ</u></p> <p><u>Responsibilities of management for the financial report</u></p> <p>The terms "management" and "those charged with governance" appear to be used interchangeably and inconsistently at times throughout the ED. While it reflects that the roles are not always distinct, it may be confusing, so we recommend the board analyses the usage of these terms. In addition, other terms may be used, therefore the statement in paragraph 35, "The report shall use the term that is appropriate ... and need not refer specifically to "management"," is key and may be highlighted in all relevant places (especially in the illustrative reports, by way of a footnote or otherwise) to the effect of "or other term that is appropriate."</p> <p><u>Auditor's responsibility for the review of the financial report</u></p> <p>See our responses below to the Addendum questions for our views on how the auditor's responsibilities in relation to going concern are described.</p>	Amended throughout	Y
		<p><u>KPMG</u></p> <p>We agree with how the responsibilities of auditors and management are described in the auditor's review report, including those relating to going concern.</p> <p>We ask the AUASB to consider allowing auditors to refer to a description of the relevant auditors responsibilities on a website of an appropriate authority, such as the AUASB website, consistent with the requirements of ASA 700.</p>	<p>Responsibilities for going concern not included in review report.</p> <p>Refer to Basis for Conclusion</p>	Y

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		Refer to related comments on the specific questions raised in the Addendum to Explanatory Memorandum for ED 01/19 in Appendix 2 to this letter.		
		<p><u>GT</u></p> <p>The responsibilities of management for the financial report are highlighted throughout the standard. We would request, however, that the AUASB reviews the usage of "Management" and "Those Charged With Governance" throughout the ED. Currently, these terms are interchanged throughout the standard. Please refer to our responses to the addendum question on the auditor's responsibilities for the review of financial report.</p>	Amended throughout	Y
		<p><u>PwC</u></p> <p>Yes, as this provides an additional level of consistency with the form of the audit report, whilst appropriately reflecting the requirements of ASRE 2410. Refer to question 12 &amp; 13 for additional detail.</p>	<p>Responsibilities for going concern not included in review report.</p> <p>Refer to Basis for Conclusion</p>	N
		<p><u>CPA</u></p> <p>Whilst the responsibilities of the auditor and management required to be included in the review report have been expanded relative to the extant standard in paragraph 37(d) and in the illustrative reports, we note that those responsibilities do not encompass all of the key matters for which the auditor is responsible. The additional responsibilities included in the proposed review report only incorporate the procedures the auditor is required to conduct in relation to going concern, as detailed in paragraph 19. By ignoring other key procedures, this creates an imbalance in the matters reported, potentially over-emphasising the procedures conducted in relation to going concern.</p> <p>We consider that the auditor's responsibilities described in the review report could be more closely aligned with those detailed in the auditor's report under ASA 700. For example, in addition to "making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures" (which</p>	<p>Responsibilities for going concern not included in review report.</p> <p>Not raised by other respondents. AUASB consider the auditor's</p>	N

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		<p>addresses the procedures in para. 16), other key procedures in ASRE 2410 that should be described in the review report include:</p> <ul style="list-style-type: none"> <li>• Understanding of the entity and its environment, including its internal control, sufficient to plan and conduct the engagement so as to be able to identify the types of potential material misstatements and consider the likelihood of their occurrence, and select the enquiries, analytical and other review procedures that will provide the auditor with a basis for their review conclusion (para. 13)</li> <li>• Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements (para. 15)</li> <li>• Obtaining evidence that the financial report agrees or reconciles with the underlying accounting records. (para. 17)</li> <li>• When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, making additional enquiries or perform other procedures to enable the auditor to express a conclusion in the auditor's review report. (para. 20)</li> </ul> <p>This list may not be complete and would need further consideration in order to appropriately summarise the responsibilities reflected in ASRE 2410. By including all of the auditor's key responsibilities in conducting a review in the review report, it puts the going concern procedures into context.</p> <p>In addition, we do not consider that procedures required on going concern are adequately reflected in the review report wording, as the report only reflects the procedures in paragraph 19, but fails to encapsulate the response to the outcome of those procedures in paragraphs 50-52. We consider that the wording used by the NZAuASB in its ED on NZ SRE 2410 explains what is done more clearly and clarifies the period considered and the risk that conditions may change, as well as aligning closely to ASA/NZ ISA 700 report wording. The words in ED NZ SRE 2410 are:</p>	<p>responsibilities adequately described in ASRE 2410.</p>	

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		<p>“Based on the review procedures performed, we conclude whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by [those charged with governance] is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the procedures performed up to the date of the review report. However, future events or conditions may cause the entity to cease to continue as a going concern.”</p> <p>In addition, we consider that paragraph 19, which requires the auditor to “enquire whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern”, could be more clearly expressed. Even though it remains unchanged from the extant standard, we suggest the procedures could instead require the auditor to enquire about the basis for TCWG’s assessment of the entity’s ability to continue as a going concern.</p> <p>Finally, we question why “Those Charged with Governance” are not referred to in the review report examples. We suggest that Those Charged with Governance are added to title “the responsibilities of Management for the Financial Report” and the wording from example reports in ASA 700 be included: “Those charged with governance are responsible for overseeing the Entity’s financial reporting process.” Overall, we recommend consideration of whether the terms “those charged with governance” and “management” have been consistently applied throughout the standard.</p>		
		<p><u>BDO</u></p> <p>Please refer to the ‘Addendum questions’.</p>	Noted	Y
		<p><u>EY</u></p> <p>We agree with the description of the responsibilities of management for the financial report, as described in the auditor’s review report.</p>	Responsibilities for going concern not included in review report.	Y

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		<p>We believe the description of the auditor’s responsibilities, particularly in relation to going concern, as drafted in ED 01/19 reflects the requirement of paragraph 19 of the ED 01/19 but, it does not include the reporting responsibilities included within paragraph 50-52 of ED 01/19, which align to the auditor’s responsibilities on reporting under ASA 700.</p> <p>In specific consideration of the NZAuASB suggested wording of the description of the responsibility in respect of going concern, we believe:</p> <ul style="list-style-type: none"> <li>Considering the scope of proposed amendments of AuASB’s ED 01/19 and the equivalent NZAuASB ED are mainly to the reporting requirements and do not substantially change the work performed by auditors when performing review of a financial report, the auditor’s review report to, explicitly, state a responsibility to conclude on going concern basis inquiries, may be onerous on the practitioner.</li> <li>The description in the NZAuASB draft: <i>“Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate”</i> may seem to indicate a requirement to express a conclusion on the going concern basis of accounting in addition to the conclusion on the financial report in its entirety under ASRE 2410.</li> </ul> <p>It could be argued that the current wording in AuASB’s ED 01/19 appears to place undue emphasis on the auditor’s responsibility to inquire of those charged with governance and lesser emphasis on the consideration of evidence gathered from other review procedures to become aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</p> <p>We suggest the following changes to the description of the auditor’s responsibilities relating to going concern to reflect the considerations discussed above:</p> <p><del>“We make enquiries about whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern. When as a result of this enquiry or other</del> <i>Based on the review procedures performed, including enquiries</i></p>	Refer to Basis for Conclusion	

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		<i>of those charged with governance, if we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, we further enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusion is based on the procedures performed up to the date of the review report, however future events or conditions may cause the entity to cease to continue as a going concern. <del>we consider the adequacy of the disclosure about such matters in the financial report.</del></i>		
5	Do you consider that there are any further amendments required to be made to ASRE 2410?	<u>Deloitte</u> Refer to Appendices 2 & 3 for our specific comments and recommendations.	For Appendix 2, refer to "Comments received on Addendum to Explanatory Memorandum ED 01/19 below", for Appendix 3, refer to "Other comments yet to be addressed" below.	Y
		<u>CA ANZ</u> It is not clear what "adequate disclosure" would be in an interim financial report when there is a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. In contrast, paragraph 19 of ASA	Not in scope of this project.	

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		<p>570 prescribes four specific disclosure requirements for annual financial statements that are subject to audit:</p> <ul style="list-style-type: none"> <li>• The principal events or conditions that may cast doubt on the entity's ability to continue as a going concern;</li> <li>• Management's plans for dealing with these events or conditions;</li> <li>• That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and</li> <li>• That, therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.</li> </ul>		
		<p><u>GT</u></p> <p>ASA 570 currently provides specific procedures in relation to suggested audit procedures to be undertaken where there exists a material uncertainty related to going concern. These audit procedures would be beneficial to also add to ASRE 2410. The procedures we would welcome being brought into the standards include:</p> <ul style="list-style-type: none"> <li>- an update on management's assessment of going concern from the year end audit;</li> <li>- evaluation of management's plans for future actions;</li> <li>- analysis of the cash flow forecast;</li> <li>- consideration of additional information that has come to light during the course of the review; and</li> <li>- management representations where appropriate.</li> </ul>	Outside scope of this project.	N
		<p><u>PwC</u></p> <p>None noted.</p>	Agree with ED 01/19 and no issues raised	N

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
		<p><u>CPA</u></p> <p>We recommend that:</p> <ul style="list-style-type: none"> <li>“auditor of the entity” is defined to clarify that it means the auditor of the entity’s annual financial report,</li> <li>the titles of the illustrative review reports in Appendix 4 are simplified to be consistent with ASA 700. For example: “Unmodified Auditor’s Review Report on a Financial Report, Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation” could be simplified to “Example Review Report, Unmodified, Single Entity, (Fair Presentation Framework)”. Consideration could also be given to mirroring the examples provided in ASA 700 and ASA 705, so it is clear which is the equivalent review report, and</li> <li>reference is made to ASA 570 as guidance when reviewing management’s assessment of the entity’s ability to continue as a going concern and determining the adequacy of disclosure of a material uncertainty in relation to going concern.</li> </ul>	<p>Not considered necessary</p> <p>Amended</p> <p>Have added a cross reference to ASA 570 in appendix 2 example procedures.</p>	
		<p><u>BDO</u></p> <p>No, not currently. Consideration has been given to ‘Other Information’ in a review context, but we agree that it is not appropriate to include a section on Other Information in a review report. Similarly, we support the exclusion of Key Audit (Review) Matters for review engagements.</p>	<p>Agree with ED 01/19 and no issues raised</p>	<p>N</p>
		<p><u>EY</u></p> <p>We believe , paragraph 23 of ED 01/19 should include requirements for obtaining written representations from management and, where appropriate, from those charged with governance, regarding their plans for future actions and the feasibility of these plans and</p>	<p>To be considered by the AUASB.</p>	

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
		appropriately reference the requirements to paragraph 16(e) of ASA 570 on <i>Going Concern</i> .		
6	Do you agree with the proposed effective date? If not, please explain why not.	<p><u>Deloitte</u></p> <p>We believe that there would be a sufficient timeframe for stakeholders to implement changes relating to ED 01/19 if the updated ASRE 2410 standard is released by the end of this calendar year.</p> <p>We note that illustrative auditor's review reports are included as appendices to engagement letters, and for financial periods commencing 1 January 2020, these would typically be issued to clients in the first half of 2020. If the updated ASRE 2410 standard is not issued by the AUASB until 2020, then it may not allow sufficient time for firms to adapt processes and templates and issue appropriate internal communications and guidance to allow for the inclusion of illustrative review reports in accordance with the updated ASRE 2410 to be included as part of the engagement letters.</p>	<p>Illustrative reports and engagement letters not mandatory.</p> <p>Amended to 1 July 2020 consistent with NZISRE.</p>	
		<p><u>KPMG</u></p> <p>We support the proposed effective date of financial reporting periods commencing on or after 1 January 2020.</p> <p>We observe however that the majority of reviews of half-year financial reports prepared in accordance with Division 2, Part 2M.3 of the Corporations Act 2001 exhibit 31 December half-year period ends. Therefore, the proposed standard will not achieve its full impact in the Australian market until 31 December 2020. We ask the AUASB to consider whether a proposed effective date of financial reporting periods ending on or after 31 December 2019 is more suitable to meet its objectives in amending the standard.</p>	<p>Amended to 1 July 2020 consistent with NZISRE.</p>	
		<p><u>GT</u></p> <p>We agree with the proposed effective date insofar as it brings into effect consistent presentation of auditor reports.</p>	<p>Agree with ED 01/19 and no issues raised</p>	N

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		<u>PwC</u> We agree with the proposed effective date of financial periods commencing on or after 1 January 2020, as the amendments are restricted mainly to the form of the review report and should not result in significant additional work effort.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u> Whilst an effective date of periods commencing on or after 1 January 2020 provides a very short implementation period, we consider that the amendments do not change the fundamental work effort which currently should be undertaken. It largely impacts the report format and content which should not present much difficulty to implement. The revisions also reflect other existing requirements such as those in relation to NOCLAR, which need to be brought to the reviewer's attention. Consequently, unless there is a significant delay in publishing the final standard, we agree with the effective date as drafted.	Agree with ED 01/19 and no issues raised	N
		<u>BDO</u> Yes, we agree with the proposed effective date.	Agree with ED 01/19 and no issues raised	N
		<u>EY</u> We support the proposed effective date allowing an option for early adoption. In our view, considering the key amendments primarily intend on alignment of auditor's review report in ED01/19 to the auditor's report requirements in ASA 700, the key stakeholders including practitioners will benefit from early adoption of the amendments, for auditor's review reports for the half year ending 31 December 2020, which would allow demonstrating consistency, to the extent relevant for a review engagement, to the most recently issued auditor's report under ASA 700.	Agree with ED 01/19 and no issues raised	N
7	Have applicable laws and regulations been appropriately addressed in	<u>Deloitte</u> Nothing further to note.	Agree with ED 01/19 and no issues raised	N

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	the proposed standard? Are there any references to relevant laws or regulations that have been omitted?	<u>KPMG</u>  Other than the matters covered at 5) above, we believe applicable laws and regulations have been appropriately addressed in the proposed standard and that no references to relevant laws or regulations have been omitted.	Agree with ED 01/19 and no issues raised	N
		<u>GT</u>  We are not aware of any laws or regulations that have not been included or addressed in the proposed ED.	Agree with ED 01/19 and no issues raised	N
		<u>PwC</u>  None noted.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u>  Yes, we consider that laws and regulations been appropriately addressed. We have not identified any omissions.	Agree with ED 01/19 and no issues raised	N
		<u>BDO</u>  We are not aware of any applicable laws and regulations that have been omitted from the proposed standard. We do not have any further specific comments at this point in time.	Agree with ED 01/19 and no issues raised	N
8	Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may	<u>Deloitte</u>  None noted.	Agree with ED 01/19 and no issues raised	N
		<u>KPMG</u>  We do not believe any applicable laws or regulations prevent, impede or conflict with the proposed standard.	Agree with ED 01/19 and no issues raised	N

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	conflict with the proposed standard?	<p><u>GT</u></p> <p>We are not aware of any laws or regulations that would prevent or impede the application of the proposed ED.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>PwC</u></p> <p>None noted.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>CPA</u></p> <p>We have not identified any such laws or regulations.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>BDO</u></p> <p>We are not aware of any laws or regulations that may prevent or impede the application of ASRE 2410 or conflict with the proposed standard.</p>	Agree with ED 01/19 and no issues raised	N
9	Are there any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?	<p><u>Deloitte</u></p> <p>None noted.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>KPMG</u></p> <p>Other than the matters covered at 1) above, we are not aware of any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may impact the application of, or conflict with, the proposed standard.</p>	Agree with ED 01/19 and no issues raised	N
		<p><u>GT</u></p> <p>We are not aware of any principles or practices that would prevent or impede the application of the proposed ED.</p>	Agree with ED 01/19 and no issues raised	N

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		<u>PwC</u> None noted.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u> We have not identified any such principles and practices.	Agree with ED 01/19 and no issues raised	N
		<u>BDO</u> In our view, there are no evident principles or practices that prevent, or impede, the application of the proposed standard, nor do we see any conflicts in that regard.	Agree with ED 01/19 and no issues raised	N
10	What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this proposed standard? If significant costs are expected, the AUASB would like to understand:  a. Where these costs are likely to occur;	<u>Deloitte</u> None noted.	Agree with ED 01/19 and no issues raised	N
		<u>KPMG</u> We do not expect significant incremental costs to the business community arising from changes to the proposed standard.  We would like to highlight the following additional costs we expect auditors to incur from compliance with the main changes to the requirements of this proposed standard.  These costs, whilst not significant, are a result of deviating from our global audit methodology and associated guidance and include: localisation of our audit platform for review engagements in accordance with proposed ASRE 2410, local methodology and guidance customisation, and updates to management representation letter templates and review report templates. These deviations may cause confusion for auditors when working as component engagement teams on global Group audits and will require customised local learning for our auditors. We do not expect these anticipated costs to outweigh the benefits to the users of audit services.	Noted.	N

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	b. The estimate extent of costs, in percentage terms (relative to audit fees); and	<u>GT</u> We do not envisage any significant additional costs arising from the application of the proposed ED.	Agree with ED 01/19 and no issues raised	N
	c. Whether expected costs outweigh the benefits to the users of audit services?	<u>PwC</u> No significant additional costs expected as a result of the proposed amendments. There is significant benefit to be gained from consistency in the form of audit and review opinions.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u> We do not consider that the revised standard will have any significant cost implications.	Agree with ED 01/19 and no issues raised	N
		<u>BDO</u> Overall, we do not expect the costs to be significant as this is an enhancement rather than a significant change. Areas where firms will incur time include the updating of template suites, education of engagement teams and communications with clients on the key changes.	Agree with ED 01/19 and no issues raised	N
11	Are there any other significant public interest matters that stakeholders wish to raise?	<u>Deloitte</u> Nothing further to note.	Agree with ED 01/19 and no issues raised	N
		<u>CA ANZ</u> We consider it in the public interest that the AUASB and NZAuASB reach agreement on the wording of the auditor's responsibilities in relation to going concern in the interim review report.	Noted and has been achieved	Y
		<u>KPMG</u> There are no other significant public interest matters that we wish to raise.	Agree with ED 01/19 and no issues raised	N

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
		<u>GT</u> Harmonisation between the IAASB standards and their equivalents ensures greater transparency and comparability for shareholders.	Agree with ED 01/19 and no issues raised	N
		<u>PwC</u> No additional matters to raise.	Agree with ED 01/19 and no issues raised	N
		<u>CPA</u> We suggest that it is in the public interest for the AUASB and NZAuASB to issue ASRE 2410 and NZ SRE 2410, respectively, with consistent wording, including that of the review report, except where legislation specific to the jurisdiction is referenced. Editorial comment: The contents page(s) should include the titles of the appendices.	Noted and achieved	Y
		<u>BDO</u> None noted.	Agree with ED 01/19 and no issues raised	N
		<u>EY</u> We believe that all applicable laws and regulations have been appropriately addressed in the proposed ED 01/19. Furthermore, we are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard. In our view, there are no additional significant costs to/ benefits arising from compliance with the main changes to the requirements of the proposed standard and there are no other significant public interest matters to raise.	Agree with ED 01/19 and no issues raised	N
<b>Comments received on Addendum to Explanatory Memorandum ED 01/19</b>				

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
1	Do you agree that the review report should include a description of the responsibility for the auditor in respect of going concern?	<u>Deloitte</u>  As a follow on to our response to question 4 above, we agree with the inclusion in the review report of a description of the responsibility of the auditor specifically referring to going concern. We believe that the enhanced disclosures about the responsibilities of the auditor relating to going concern more directly highlight these responsibilities and are consistent with the approach adopted for auditor's reports as per ASA 570 and ASA 700.	AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for going concern in the review report.  Refer to Basis for Conclusions	N
		<u>CA ANZ</u>  Yes, provided the AUASB and NZAuASB reach consensus on such a description and provided it accurately describes the auditor's responsibilities in respect of going concern.	AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for going concern in the review report.  Refer to Basis for Conclusions	N
		<u>KPMG</u>	AUASB and NZAuASB concluded not to describe the	N

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
		<p>We agree that the auditor’s review report should include a description of the responsibility for the auditor in respect of going concern on the basis of:</p> <ul style="list-style-type: none"> <li>• achieving greater “communicative value” for users via format and content alignment of the auditor’s review report to the auditor’s report;</li> <li>• closing any perceived expectation gap for users related to the auditors responsibilities in respect of going concern between audit and review engagements; and</li> <li>• corresponding with the responsibilities of management included in the auditor’s review report as included in Proposed ASRE 2410.35(b).</li> </ul>	<p>auditor’s or management’s responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	
		<p><u>GT</u></p> <p>We would agree that a specific comment in relation to the auditor’s responsibilities would be beneficial to the users of the review report. We would also recommend that the AUASB and NZAuASB reach a consensus in relation to the two proposed paragraphs.</p>	<p>AUASB and NZAuASB concluded not to describe the auditor’s and management’s responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	N
		<p><u>PwC</u></p> <p>Yes, as this will not only improve the consistency with the format of the audit report, but also clarify for users of the report what the auditor’s responsibilities are in respect of going concern in a limited assurance engagement.</p>	<p>AUASB and NZAuASB concluded not to describe the auditor’s and management’s</p>	N

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			responsibility for going concern in the review report.  Refer to Basis for Conclusions	
		<u>CPA</u>  Yes, a description of that responsibility is appropriate if the other key responsibilities of the auditor in conducting a review of an interim financial report are also reflected. The statement describing the auditor's responsibilities needs to be appropriately balanced so that no single responsibility is overemphasised.	AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for going concern in the review report.  Refer to Basis for Conclusions  AUASB concluded that the existing description of the auditor's responsibility was adequate.	N
		<u>BDO</u>	AUASB and NZAuASB concluded	N

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		Yes, we agree that the review report should include a description of the auditor in respect of going concern. This is consistent with the enhanced disclosure updates made to ASA 700 thus achieving further transparency and preventing any misunderstanding from users of financial reports.	not to describe the auditor's and management's responsibility for going concern in the review report.  Refer to Basis for Conclusions	
2	Do you agree with how the auditor's responsibility has been described in ED 01/19? If so, why. If not, why not, with, if appropriate, specific reference to the NZAuASB suggested wording.	<p><u>Deloitte</u></p> <p>As per our response to question 4 above, we holistically agree with how the auditor's responsibility has been described in ED 01/19 (both within the standard as well as the illustrative review report), however we do recommend that the AUASB reconsider two specific elements, being the expectation of a recurring engagement (and is this relevant for initial review engagements and/or non-listed entities) and reference to when a modified conclusion would be relevant.</p> <p>We believe that the suggested wording by the NZAuASB does not constitute a direct alternative to the wording proposed in ED 01/19, as the NZAuASB wording seems to closely align with that included in the auditor's report under ASA 700, which does not automatically translate over to a review engagement that is less in scope than an audit. For example, the NZAuASB suggested wording provides a direct conclusion on the use of the going concern basis, however it doesn't make reference to the specific (limited) procedures performed.</p> <p>In addition, the NZAuASB suggested wording ends with "However, future events or conditions may cause the entity to cease to continue as a going concern." We don't believe this is appropriate as it is extraneous for the circumstances of a review engagement, and it is out of context as there is no linkage to the date of the auditor's review report (which is how it is structured in the auditor's report under ASA 700).</p>	<p>AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	N

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		We acknowledge that the NZAuASB suggested wording does make reference to the situation where a modified conclusion may occur – this could be leveraged by the AUASB when considering our response to question 4 above.		
		<p><u>CA ANZ</u></p> <p>We do not agree with how the auditor’s responsibility in relation to going concern has been described in the ED. Our reasons for this are as follows:</p> <ul style="list-style-type: none"> <li>• We question if procedures are analogous to responsibilities. We believe responsibilities are at a higher level and broader than procedures.</li> <li>• If taking a ‘procedural requirement’ approach, in our view just replicating paragraph 19 does not provide a complete list of requirements in relation to going concern.</li> <li>• Listing specific procedures may be inferred as long-form reporting which may cause confusion.</li> <li>• The absence of what the auditor is required to do if the outcome of said procedures indicates going concern issues leaves users to draw their own conclusions.</li> </ul> <p>Given the importance of the underlying going concern assumption, we would expect there to be a separate section in the body of the standard that explicitly addresses the auditor’s responsibility in relation to going concern. In contrast there is a separate section for the “Auditor’s Responsibility for Other Information” (paragraphs 25-26), but the review report is silent about this. In our view it is this gap in ASRE 2410 that has resulted in the two boards arriving at different interpretations, and ideally this gap should be addressed in the first instance. The lack of clarity in this regard may pose a risk in terms of legal implications.</p> <p>Paragraph 16 of the ED requires the auditor to conduct various procedures “to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor’s attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting</p>	<p>AUASB and NZAuASB concluded not to describe the auditor’s and management’s responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	Y/N

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		<p>framework”. Most entities undergoing an interim review would have the going concern assumption as an integral part of their accounting framework (eg paragraph 25, AASB 101).</p> <p>We agree that an explicit conclusion on the appropriateness of the use of the going concern basis of accounting is not required in the review report itself. However, the appropriateness of the use of the going concern basis of accounting, the existence of a material uncertainty and whether or not this is adequately disclosed in the financial report, impacts on the type of conclusion the auditor expresses (paragraphs 50-52 of the ED). This therefore implies the auditor must be required to evaluate these aspects and form a view in order to issue the review report.</p> <p>In a review engagement by an assurance practitioner who is not the auditor of the entity, when the assurance practitioner becomes aware of events or conditions that may cast significant doubt about the entity’s ability to continue as a going concern, the assurance practitioner is required to “conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity’s ability to continue as a going concern” (paragraph 54, ASRE 2400). We believe it would be reasonable for users to expect the same work effort around going concern for an interim review conducted by the auditor</p> <p>We encourage the board to consider if there is value in clarifying in the review report:</p> <ul style="list-style-type: none"> <li>• What the auditor does not conclude on regarding going concern (eg confirming the future viability of the entity);</li> <li>• That going concern remains an assumption by management about the foreseeable future and that assurance cannot be placed on future events; and</li> <li>• That the going concern assumption is an area of significant judgement by both management and auditor.</li> </ul> <p>On this basis we believe the NZAuASB’s proposed option for the description more closely reflects the auditor’s responsibility in relation to going concern.</p>		N

Item No.	Question	Respondent Comment	ATG Commentary	Change to be made to Doc? Y/N
		<p><u>KPMG</u></p> <p>We agree with how the auditor’s responsibility has been described in ED 01/19, which aligns to the relevant requirements of the auditor with respect to going concern under the proposed ASRE 2410 standard.</p> <p>In contrast, the auditor’s responsibility described in the NZAuASB suggested wording expands the auditor’s obligations with respect to going concern for review engagements. Specifically, concluding on the appropriateness of management’s use of the going concern basis of accounting, is greater than the requirement in Proposed ASRE 2410.19.</p> <p>We consider it important for the AUASB to work with the NZAuASB to achieve convergence between Proposed ASRE 2410 and NZ SRE 2410.</p> <p>We would like to highlight the undue prominence to the auditor’s responsibilities with respect to going concern under Proposed ASRE 2410 review report in comparison to the overall length of the report. As outlined in section 4 above, we suggest the AuASB consider allowing auditors to refer to a description of the relevant auditors responsibilities on a website of an appropriate authority, such as the AUASB website, consistent with the requirements of ASA 700.</p>	<p>AUASB and NZAuASB concluded not to describe the auditor’s and management’s responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	N
		<p><u>GT</u></p> <p>We acknowledge that there is currently an expectation gap in relation to the auditor’s responsibilities in relation to going concern.</p> <p>On review of both the AUASB and NZAuASB auditors’ responsibility paragraphs, we note there is a difference in inference – the procedures explicit in the NZAuASB auditor’s responsibility paragraph address these further than the proposed AUASB paragraphs.</p> <p>In addition an explicit statement referring to Management and Those Charged with Governance’s Conclusion assessment of going concern would also benefit the reader, however this would fall under an amendment to AASB 101, which is outside the scope of this ED.</p>	<p>AUASB and NZAuASB concluded not to describe the auditor’s and management’s responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	N

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		We agree that an explicit statement concluding on the appropriateness of the going concern basis of accounting within the review report is not required, as this is an implicit understanding of the framework.		
		<p><u>PwC</u></p> <p>We agree with the way the auditor's responsibility in relation to going concern has been described in ED 01/19 for the following reasons:</p> <ul style="list-style-type: none"> <li>i. It is important to differentiate between the requirements of a limited assurance engagement versus that of a reasonable assurance engagement;</li> <li>ii. We do not believe there is a compelling reason to revise the current requirement included in ASRE 2410 in relation to the auditor's responsibilities in respect of going concern, which is consistent with ISRE 2410, or to amend the specific review procedures required to expand the requirements beyond what is required by the International standard.</li> <li>iii. The wording in the review report needs to be consistent with the requirement in the standard.</li> </ul> <p>However, it would not be desirable for the Australian standard to be inconsistent with the New Zealand standard in this instance and we would encourage the AUASB and NZAuASB to work towards resolving the difference. For the above mentioned reasons, our strong preference is to remain consistent with the requirements of ISRE 2410.</p>	<p>AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	N
		<p><u>CPA</u></p> <p>We consider that the auditor's responsibilities need to include the other key responsibilities of the auditor in conducting a review engagement, not solely those relating to going concern, as explained in answer to question 4 above. In addition, we consider that the NZAuAB's suggested wording in ED NZ SRE 2410 on the responsibilities in relation to the going concern stands alone better than that in ED 01/19, as it does not include the detailed procedures conducted but is more complete in explaining the outcome of the procedures and relevant limitations.</p>	<p>AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for</p>	

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			going concern in the review report.  Refer to Basis for Conclusions	
		<p><u>BDO</u></p> <p>Yes, on balance, we agree with the wording in ED 01/19 but consider the last sentence of NZAuASB suggested wording as also appropriate to consider for inclusion.</p> <p>The suggested wording put forward by the AUASB taken directly from paragraph 19 of extant ASRE 2410 achieves consistency with the requirements of ASRE 2410 and we support the AUASBs desire not to move ahead of the IAASB on this matter. We do see some limitations of this wording, however. Simply listing the procedures may not be the most effective way of communicating the auditor's responsibility for going concern. In addition, this list of procedures may be considered incomplete.</p> <p>The alternative wording suggested by NZAuASB seems to go further to include elements of ISA (NZ) 700 and explains why the auditor is undertaking these procedures in order to meet investor expectations of the auditor's responsibilities. Whilst we recognise the objective of what is trying to be achieved, we do not think this suggested wording is appropriate for a review report and may actually cloud users' expectations as to what auditors are required to do for a review engagement as opposed to an audit.</p> <p>As noted above, however, we agree with the final sentence of the suggested wording, which reemphasises the fact that, outside of auditor's responsibilities, future events or conditions, may still cause the entity to cease to continue as a going concern.</p> <p>For the purposes of this ED, we agree with the wording suggested by AUASB and inclusion of the final sentence suggested by NZAuASB being '<i>However, future events or conditions may cause the entity to cease to continue as a going concern.</i>' We also support</p>	<p>AUASB and NZAuASB concluded not to describe the auditor's and management's responsibility for going concern in the review report.</p> <p>Refer to Basis for Conclusions</p>	N

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		any future projects to revisit the wording of the underlying procedures and responsibilities with respect to going concern in a review engagement.		
		Please refer to Question 4 for responses from EY.		N

\* \* \*

## EXHIBIT 2: Other comments raised in the appendices of submissions

The comments received in the appendices of the submissions to AUASB are tabled below, these comments are not related to any questions raised in ED 01/19. The AUASB have addressed the following comments in the revised ED 01/19.

### Deloitte Touche Tohmatsu

ED 01/19 Paragraph	Comment	AUASB response
<b>Points noted with respect to inconsistencies:</b>		
11(a) and A8(c)(i) Reference to presentation or fair presentation	Paragraph 11(a) refers to “...for the preparation and presentation of the financial report” whereas the supporting guidance paragraph A8 (c)(i) refers to the term “...where relevant their fair presentation”.	11(a) consistent with A8
19, 19(a), 37(d) and 37(d)(i) Responsibilities for going concern	Paragraphs 19 and 19(a) refer to “those charged with governance” when making enquiries, however paragraphs 37(d) and 37(d)(i) refer to “management” when referring to the enquiries within the Auditor’s Responsibilities section of the auditor’s review report.	Noted but relevant paragraphs removed from auditor’s report
30(c), 33 and A53 Conformity with International Standards on Review Engagements – Paragraph 1 (last bullet point) Reference to “auditor’s review report”	To be consistent with updates to the rest of the standard: <ul style="list-style-type: none"> <li>• within paragraph 33 the words “auditor’s review” should be included before “report”; and</li> <li>• For the other paragraphs the word “auditor’s” should be included before “review report”.</li> </ul>	Amended throughout
33(e)(i) Reference to “half-year financial report”	The word “half-year” should be included before “financial report” within the middle of this sub paragraph (as it is referring to a financial report prepared in accordance with the <i>Corporations Act 2001</i> ).	Amended
41 Reference to “a basis for modification paragraph”	Reference to “a basis for modification paragraph” has been updated in the second sentence to refer to “in the Basis for Qualified Conclusion or Basis for Adverse Conclusion section of the report.” We recommend that this change is also carried through into the last sentence which still currently refers to “basis for the modification paragraph.”	Amended

53 and 55 Emphasis of matter and other matter paragraphs	<p>Within paragraph 53, we recommend that the wording of “<i>The auditor shall consider adding an Emphasis of Matter paragraph...</i>” be replaced with “<i>The auditor shall consider including an Emphasis of Matter paragraph in the auditor’s review report...</i>”.</p> <p>Within paragraph 55, we recommend that the wording of “<i>The auditor shall consider adding an Other Matter paragraph...</i>” be replaced with “<i>The auditor shall consider including an Other Matter paragraph...</i>”.</p>	Amended
A48	This paragraph currently references to the “ <i>Basis for Qualified Conclusion paragraph to the auditor’s review report</i> ” and we suggest that “ <i>paragraph to</i> ” be replaced with it “ <i>section of</i> ”.	Amended
<b>Grammatical points noted:</b>		
30	<p>Based on the proposed changes to this paragraph, it currently reads as follows: “<i>When, as a result of performing the review of a financial report, a matter comes to the auditor’s attention that indicates the existence of fraud or non-compliance with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred at the entity, the auditor shall:</i>”</p> <p>We recommend that a comma is placed after the first reference to “laws and regulations” and that the reference to “has occurred at the entity” is removed, thus it would read as follows: “<i>...the existence of fraud or non-compliance with laws and regulations, or suspected fraud or non-compliance with laws and regulations, the auditor shall:</i>”.</p>	Amended
30(a)	We suggest that the word “ <i>shall</i> ” is extraneous in this context as the lead in sentence ends with the word “ <i>shall</i> ” and propose that it be removed, so that it reads: “ <i>...and consider the implications...</i> ”.	Amended
33(e)(i), 33(e)(ii) and 33(e)(iii)	Given that the lead in sentence in paragraph 33 refers to: “ <i>The Conclusion section of the report shall:</i> ” and the lead in sentence in paragraph 33(e) refers to: “ <i>Include a conclusion:</i> ”, then we recommend removing the phrase “ <i>the auditor’s review report shall include a conclusion</i> ” for each of these sub-paragraphs.	Not considered necessary.
33(e)(i)	The word “ <i>has</i> ” needs to be included prior to “ <i>...become aware of any matter...</i> ”, so	Amended

	that it reads: “...whether the auditor has become aware of any matter...”.	
35	The sentence in this paragraph currently reads as follows: <i>“In some jurisdictions, and the appropriate reference may be to those charged with governance.”</i> The comma and the word “and” should be removed so it reads: <i>“In some jurisdictions the appropriate reference...”</i> .	Amended
39(c)	Reference to ASA 705 should not be a separate bullet point, as this would then be read as a follow on from the lead in sentence. We suggest that this sub paragraph come directly under paragraph (b) with no separate bullet point and thus “(c)” should be removed.	Paragraph moved to application
41	Reference to “states” in the second sentence, should be changed to “state”.	Amended
50	We suggest the sub-heading be reworded to be as follows: <i>“Material Uncertainty Exists Related to Going Concern”</i> .	No longer relevant as heading changed
54(b)	The last sentence currently refers to <i>“disclosed on the financial report”</i> . We believe that “on” should be replaced with “in”.	Amended
<b>Other points noted:</b>		
29(c)	We note that due to the removal of the reference to paragraph Aus A36.1 from the extant ASRE 2410, the remaining reference is only to paragraph A57 which provides guidance specifically for public sector auditors.	Paragraph added back
32(a)	We suggest that there is duplication of reference to the “auditor” in the requirement to have <i>“An appropriate title clearly identifying it as an auditor’s review report of the independent auditor of the entity”</i> . We note that the title used in the illustrative reports in Appendix 3 is “Independent Auditor’s Review Report”.	Amended
37(d)	This should refer to <i>“enquiry and other review procedures”</i> , instead of <i>“enquiry or other review procedures”</i> , in order to use the correct wording and to align with the wording used in the illustrative reports in Appendix 3.	Paragraph removed
38(c) - footnote	Reference to “auditors” within footnote 5 should be replaced with “auditor’s”.	Amended

39(c)	We suggest that the wording be updated to include “guidance as to appropriate”, so it would then read as follows: <i>“Refer to ASA 705...for guidance as to appropriate wording to use...”</i> .	Removed
40(b)	We suggest a change from “matter” to “matter(s)”.	Paragraph removed
47	This paragraph states: <i>“When the auditor disclaims a conclusion on the financial report, the auditor shall not include the elements required by paragraph 34(b)”</i> . Paragraph 34 (b) states: <i>[The report shall include a section directly following the Conclusion section, with the heading “Basis for Conclusion”, that:] “Refers to the section of the auditor’s review report that describes the auditor’s responsibilities; and”</i> . Is the reference to paragraph 34(b) correct? Should this instead refer to paragraph 34(a) where it refers to the statement that a review was conducted?	Amended
48	The “s” on the word <i>“descriptions”</i> should be removed so that it reads: <i>“description of the auditor’s responsibilities”</i> .	Amended
48(a) and A48	Based on the current wording within these paragraphs, in circumstances when the report will be modified, reference is to be made that the review was conducted <i>“in accordance with this Auditing Standard”</i> . We read this as meaning that this exact wording would be stated in the review report. We recommend that reference to <i>“this Auditing Standard”</i> be replaced with the name of the standard, and thus refer to <i>“ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity”</i> explicitly.	Amended
50 and A41A	We recommend that the order of sections within the review report be stipulated so this is clear and is applied consistently (and is also consistent with ASA 700). This is particularly relevant for situations where a material uncertainty exists related to going concern and an additional paragraph will be included within the auditor’s review report. This could be achieved by either adding specific wording into this paragraph, or by expanding one of the illustrative reports in Appendix 3 to include the material uncertainty related to going concern paragraph.	Have added to application material A53 and A54.

A12	We highlight that the reference to “ <i>financial report components</i> ” is unclear and could be misconstrued, and we also note that this wording is not used in ASA 600. We recommend that this wording be updated to “ <i>financial information of the component</i> ” and then reference to “reports” later in the sentence be updated to “ <i>financial information</i> ”.	Out of scope of this update to ASRE 2410 and not considered necessary
A36	We suggest the following changes (in bold) to this paragraph as follows: <ul style="list-style-type: none"> <li>- First sentence: “<b>An auditor</b> conducting a review engagement under this auditing standard <b>is not required to...</b>”.</li> <li>- Second sentence: “ASA 720 requires <b>the auditor</b> to read...”.</li> <li>- Fifth sentence: “If an amendment to...and <b>describe</b> the material misstatement.”</li> </ul>	Amended
A38	We believe that the reference to “under paragraph 44” should be paragraph 56 instead. In addition, we suggest that the linking reference at the end “(Ref: Para. 28)” should also refer to paragraph 30.	Amended
A41A	We suggest that the linking reference in the sub-title “(Ref: Para. 32)” should also refer to paragraph 33.	Amended
Appendix 2 Illustrative Detailed Procedures	We note that conforming amendments relating to NOCLAR were incorporated into paragraph 30 of ED 01/19, however there are no proposed changes to Appendix 2. We note that the only reference relating to NOCLAR in Appendix 2 is paragraph 6(h) which states “[Enquire of persons responsible for financial reporting about the following:] Knowledge of any actual or possible significant non-compliance with laws and regulations.” We recommend that the AUASB reconsiders whether the detailed procedures relating to NOCLAR within Appendix 2 should be updated and/or expanded to align with the proposed amendments to the standard.	Have added 4 f to Appendix 2 to include NOCLAR

**KPMG**

Reference	Observation	Comments	ATG Comment
General observation - Proposed ASRE 2410	Removal of “Independent” from the title of proposed ASRE 2410 and at various places throughout the proposed standard.	<ul style="list-style-type: none"> <li>An auditor is required to be independent and therefore there is no perceived additional value from removing the word “Independent” from the proposed standard.</li> <li>The change is inconsistent with ISRE 2410 and naming of other Australian Auditing Standards e.g. <i>ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>.</li> </ul>	“Independent” has been added to the revised proposed ASRE 2410.
ASRE 2400, including ASRE 2400.88	Requirements/guidance for auditors on special purpose frameworks and use of the special purpose EOM paragraph.	<ul style="list-style-type: none"> <li>There is an opportunity to create clarity for auditors in ASRE 2410 related to review engagements on financial reports prepared in accordance with special purpose frameworks in particular with compliance frameworks now being considered within the scope of the standard.</li> </ul>	Amended refer A55.
Proposed ASRE 2410.23(f)	Uses inconsistent language with related ASA 250.17.	<ul style="list-style-type: none"> <li>“identified” (ASRE 2410) vs. “known” (ASA 250).</li> </ul>	Amended
Proposed ASRE 2410.33(d)	Inconsistent with related paragraph in ASA 700.24(d).	<ul style="list-style-type: none"> <li>Inclusion of “and other explanatory information” in ASRE 2410.33(d) is inconsistent with ASA 700.24(d). We note, however, this is consistent with the definition of AASB 101.10(e).</li> </ul>	ATG has updated the sentence to be consistent with AASB 134.
Proposed ASRE 2410.33(e)(i)	Grammatical error	<ul style="list-style-type: none"> <li>“become” should say “became”</li> </ul>	Amended to “has become”.
Proposed ASRE 2410.A50	Reference to EOM paragraph in proposed ASRE 2410.A50 however could reasonably be an EOM or MURGC.	<ul style="list-style-type: none"> <li>We consider the required edits as follows, <i>The auditor may have alerted users to the to the existence of a material uncertainty relating to an event or condition that casts significant doubt on the entity’s ability to continue as a going concern by adding an emphasis of matter paragraph or [Material Uncertainty Related to Going Concern] to a prior audit or auditor’s review report”</i></li> </ul>	Amended to remove EOM and replaced with MURGC.

Proposed ASRE Example reports, “Report on the Financial Report” heading.	Missing footnote for “Report on the Financial Report”.	<ul style="list-style-type: none"> <li>Other auditing standards include a footnote for the appropriate use of this heading e.g. <i>The sub-title Report on the [Half-Year] Financial Report is unnecessary in circumstances when the second sub-title —Report on Other Legal and Regulatory Requirements is not applicable.</i></li> </ul>	Amended.
Proposed ASRE Example reports, under “Conclusion” heading.	Inconsistencies with ASA 700 and the requirements of Proposed ASRE 2410.	<p><u>Inconsistencies with ASA 700:</u></p> <ul style="list-style-type: none"> <li>Reference to the “Accompanying Financial Report” in ASA 700 is in the opinion rather than in the introductory sentence “We have audited the financial report. Proposed ASRE 2410 still references “We have reviewed the “accompanying” financial report.</li> </ul> <p><u>Inconsistencies with proposed ASRE 2410</u></p> <ul style="list-style-type: none"> <li>“Based on our review, which is not an audit” appears in the example reports but not included in the required elements of the auditor’s review report.</li> </ul>	<p>Amended</p> <p>Have retained this in the example reports. Not considered necessary to include a specific requirement to include this wording in the review report. Note is not in NZ SRE illustrative examples.</p>
Proposed ASRE Example reports, under “Basis for conclusion” heading.	Inconsistencies with ASA 700 and the requirements of Proposed ASRE 2410.	<p><u>Inconsistencies with ASA 700:</u></p> <ul style="list-style-type: none"> <li>Proposed ASRE 2410 refers to “the <u>auditor independence</u> requirements of the Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Australia” whereas ASA 700 refers to “the <u>ethical</u> requirements”.</li> <li>No equivalent reference to “We believe that the <u>audit</u> evidence we have obtained is sufficient and appropriate to provide a basis for our opinion/[conclusion].</li> </ul>	<p>Amended.</p> <p>not considered necessary to include this in the review report.</p>

	Reference to the Accounting Professional and Ethical Standards Board's "APES 110 Code of Ethics for Professional Accountants (the Code).	<p><u><i>Inconsistencies with proposed ASRE 2410</i></u></p> <p>Example reports B and E in Proposed ASRE 2410 incorrectly refer to "<i>the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our review of the financial report in Australia.</i>"</p> <p>Proposed ASRE 2410.34(c) requires reference to "<i>the relevant ethical requirements relating to the <u>audit</u> of the annual financial report</i>".</p> <p>Title of "the Code" will change effective 1 January 2020 to "<i>APES 110 Code of Ethics for Professional Accountants (including Independence Standards)</i>" supersedes the Code effective 1 January 2020". This should be reflected in the Example reports.</p>	<p><u>Amended</u></p> <p>Amended</p>
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### EXHIBIT 3: Other comments raised in the cover letters

Respondent Comment	ATG Commentary
<p>CPA Australia</p> <p>CPA Australia supports the revision of ASRE 2410 in the absence of any project at the International Auditing and Assurance Standards Board to revise ISRS 2410. In particular, we support the scope of the revisions to reflect the current auditor's report format and content, and the outcomes of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR). We consider that it will be helpful to both auditors and users of financial reports for the language, scope and format of the interim review report prepared by the auditor of the entity to be consistent with the auditor's report issued at year end.</p> <p>However, to this end, we suggest that the alignment of the review report wording in revised ASRE 2410 could be much closer to the audit report wording in ASA 700, particularly with respect to the nature and breadth of the procedures covered in the auditor's responsibilities. The responsibilities, included in the auditor's report in revised ASRE 2410, focus on procedures related to going concern but omit references to other core procedures. Consequently, the report is arguably unbalanced in reflecting the key responsibilities of the auditor when conducting a review engagement. In addition, we consider that the applicable requirements in APES 110 Code of Ethics for Professional Accountants with respect to NOCLAR, for reviews conducted by the auditor, need to be identified and better reflected in ASRE 2410.</p>	<p>Have removed going concern. Have not added additional responsibilities as not considered necessary.</p> <p>Have included a reference to ASA 102 and additional detail on NOCLAR.</p>

\* \* \*

**Auditing Standard on Review  
Engagements ASRE 2410**  
*Review of a Financial Report Performed by  
the Independent Auditor of the Entity*

Issued by the Auditing and Assurance Standards Board



**Australian Government**

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**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Auditing Standard

This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## PREFACE

### **Reasons for Issuing ASRE 2410**

The AUASB issues Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

### **Main Features**

This Standard on Review Engagements establishes requirements and provides application and other explanatory material regarding the responsibilities of an auditor of an entity when engaged to undertake a review of a financial report, and on the form and content of the auditor's review report.

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard on Review Engagements is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

R Simnett AO  
Chair - AUASB

## **Conformity with International Standards on Review Engagements**

This Auditing Standard on Review Engagements conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

In 2009 extant ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity* was reissued by the AUASB in clarity format. The underlying standard to extant ASRE 2410 is ISRE 2410 which has not been drafted in “clarity” format by the IAASB.

Additionally in 2009, following consultation with stakeholders in Australia in accordance with normal exposure draft processes, the AUASB decided that:

- due to the nature of reviews of other historical financial information, a separate Standard is more appropriate than ASRE 2410 being adapted by the auditor for this purpose; and
- ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, developed by the AUASB, deals with reviews of other historical financial information.

At the time of issuing extant ASRE 2410 the AUASB determined that it conformed, with the exceptions listed below, to ISRE 2410 to the extent that ISRE 2410 deals with the review of financial statements by the auditor of the entity.

In 2019, following consultation with stakeholders in Australia, further amendments to ASRE 2410 were made to align the reporting requirements with the revised auditor reporting requirements contained in ASA 700 *Forming an Opinion and Reporting on a Financial Report* (operative for financial reporting periods ending on or after 15 December 2016). These amendments are additional reporting requirements which are not contained in ISRE 2410.

The AUASB considers that this Auditing Standard conforms, to the extent described above, with International Standard ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. The main differences between this Auditing Standard and ISRE 2410 are:

1. This Auditing Standard contains the following requirements that are not contained in ISRE 2410:
  - This Auditing Standard applies to:
    - ◆ a review, by the auditor of the entity, of a financial report for a half-year in accordance with the *Corporations Act 2001*; and
    - ◆ a review, by the auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose (Ref: Para. 1(a) and (b)).
  - Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:
    - ◆ if possible, perform appropriate alternative procedures; and
    - ◆ document in the working papers:
      - the circumstances surrounding the inability to comply;
      - the reasons for the inability to comply; and

- justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report (Ref: Para. 7).

- The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
  - ◆ for the preparation and presentation of the financial report including where relevant their fair presentation;
  - ◆ for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
  - ◆ to provide the auditor with:
    - access to information relevant to the preparation of the financial report;
    - additional information that the auditor may request for the purposes of the review engagement; and
    - unrestricted access to persons from whom the auditor determines it necessary to obtain evidence (Ref: Para. 11).
- The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation (Ref: Para. 12).
- The auditor shall consider materiality, using professional judgement, when:
  - ◆ determining the nature, timing and extent of review procedures; and
  - ◆ evaluating the effect of misstatements (Ref: Para. 15).
- When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report (Ref: Para. 22).
- If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation of the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate (Ref: Para. 25).
- When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that indicates the existence of fraud or non-compliance with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the auditor shall:
  - ◆ communicate the matter unless prohibited by law or regulation, as soon as practicable to those charged with governance and shall consider the implications for the review
  - ◆ request management's assessment of the effect (s) on the financial report;

- ◆ consider the effect on the auditor's conclusion and the review report; and
- ◆ determine whether law, regulation or relevant ethical requirements:
  - require the auditor to report to an appropriate authority outside the entity;
  - establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. (Ref: Para. 31).
- The following paragraphs contain requirements in relation to the auditor's review report and are in addition to those in ISRE 2410:
  - ◆ Paragraphs 33 to 39 relate to the content and order of the auditor's review report;
  - ◆ Paragraphs 40, 41, 48 and 50 relate to auditor's review reports which contain a modified review conclusion;
  - ◆ Paragraphs 49 to 51 relate to auditor's review reports with a going concern matter;
  - ◆ Paragraphs 53 and 54 relate to emphasis of matter and other matter paragraphs.
- 2. This Auditing Standard includes explanatory guidance not contained within ISRE 2410 on:
  - Materiality (Ref: Para. A14 to A18); and
  - Comparatives (Ref: Para. A28 to A31).
- 3. This Auditing Standard provides illustrative examples that differ in form and content from those contained in ISRE 2410, namely:
  - An engagement letter (Appendix 1).
  - A written representation letter (Appendix 1).
  - The auditor's unmodified review reports (Appendices 3 and 4).
  - The auditor's modified review reports (Appendix 4).
- 4. This Auditing Standard provides illustrative detailed procedures that may be performed in an engagement to review a financial report that are not contained in ISRE 2410 (Appendix 2).

Compliance with this Auditing Standard on Review Engagements enables compliance with ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* to the extent described above.

## **AUDITING STANDARD ON REVIEW ENGAGEMENTS ASRE 2410**

### ***Review of a Financial Report Performed by the Independent Auditor of the Entity***

#### **Application**

1. This Auditing Standard on Review Engagements applies to:
  - (a) a review by the auditor of the entity, of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) a review, by the auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose.

#### **Operative Date**

2. This Auditing Standard on Review Engagements is operative for financial reporting periods commencing on or after 1 July 2020 with early adoption permitted.

#### **Introduction**

##### **Scope of this Auditing Standard on Review Engagements**

3. This Auditing Standard on Review Engagements (Auditing Standard) deals with the auditor's responsibilities when an auditor undertakes an engagement to review a financial report of an audit client, and on the form and content of the auditor's review report. The term "auditor" is used throughout this Auditing Standard, not because the auditor is performing an audit function but because the scope of this Auditing Standard is limited to a review of a financial report performed by the auditor of the financial report of the entity.

#### **Objective**

4. The objective of the auditor is to plan and perform the review to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial report, or complete set of financial statements, is (are) not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A1-A3)

#### **Definitions**

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
  - (a) An interim financial report means a financial report that is prepared in accordance with an applicable financial reporting framework<sup>1</sup> for a period that is shorter than the entity's financial year.
  - (b) A financial report means a complete set of financial statements including the related notes and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report. For example, a

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<sup>1</sup> See, for example, Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

financial report, as defined under section 303 of the *Corporations Act 2001* consists of financial statements for the half-year, notes to the financial statements and the directors' declaration about the statements and notes.

- (c) An applicable financial reporting framework means a financial reporting framework adopted by management, and where appropriate, those charged with governance, in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and;

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of a financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

## **Requirements**

### **Performing a Review**

- 6. The auditor who is engaged to perform a review of a financial report shall perform the review in accordance with this Auditing Standard. (Ref: Para. A4)
- 7. Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement in this Auditing Standard, the auditor shall:
  - (a) if possible, perform appropriate alternative procedures; and
  - (b) document in the working papers:
    - (i) the circumstances surrounding the inability to comply;
    - (ii) the reasons for the inability to comply; and
    - (iii) justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report.

### **General Principles of a Review of a Financial Report**

- 8. The auditor shall comply with relevant ethical requirements relating to the audit of the annual financial report of the entity. (Ref: Para. A5)
- 9. The auditor shall implement quality control procedures that are applicable to the individual engagement. (Ref: Para. A6)

10. The auditor shall plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial report to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A7)

**Agreeing the Terms of the Engagement** (Ref: Para. A8, A58 and A60)

*Preconditions for a Review*

11. The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
- (a) for the preparation of the financial report including where relevant their fair presentation;
  - (b) for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
  - (c) to provide the auditor with:
    - (i) access to information relevant to the preparation of the financial report;
    - (ii) additional information that the auditor may request for the purposes of the review engagement; and
    - (iii) unrestricted access to persons from whom the auditor determines it necessary to obtain evidence.

*Agreement on Review Engagement Terms*

12. The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.

**Procedures for a Review of a Financial Report**

*Understanding the Entity and its Environment, Including its Internal Control*

13. The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports, sufficient to plan and conduct the engagement so as to be able to:
- (a) identify the types of potential material misstatements and consider the likelihood of their occurrence; and
  - (b) select the enquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A9-A12)
14. In order to plan and conduct a review of a financial report, a recently appointed auditor, who has not yet performed an audit of the annual financial report in accordance with Australian Auditing Standards, shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports. (Ref: Para. A13)

**Materiality** (Ref: Para. A14-A18)

15. The auditor shall consider materiality, using professional judgement, when:
- (a) determining the nature, timing and extent of review procedures; and
  - (b) evaluating the effect of misstatements.

**Enquiries, Analytical and Other Review Procedures**

16. The auditor shall make enquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A19-A23)
17. The auditor shall obtain evidence that the financial report agrees or reconciles with the underlying accounting records. (Ref: Para. A24)
18. The auditor shall enquire whether management has identified all events up to the date of the auditor's review report that may require adjustment to or disclosure in the financial report. (Ref: Para. A25)
19. The auditor shall enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as the result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
- (a) enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
  - (b) consider the adequacy of the disclosure about such matters in the financial report. (Ref: Para. A26)
20. The auditor shall enquire of management and, where appropriate, those charged with governance, as to the existence of any actual or suspected non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. (Ref: Para. A20)
21. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall make additional enquiries or perform other procedures to enable the auditor to express a conclusion in the auditor's review report. (Ref: Para. A27)

**Comparatives – First Financial Report** (Ref: Para. A28-A31)

22. When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report.

**Evaluation of Misstatements** (Ref: Para. A32-A34)

23. The auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the financial report.

### **Written Representations**

24. The auditor shall endeavour to obtain written representations from management and, where appropriate, those charged with governance, that:
- (a) They acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
  - (b) The financial report is prepared and presented in accordance with the applicable financial reporting framework;
  - (c) They believe the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of such items is included in or attached to the written representations;
  - (d) They have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
  - (e) They have disclosed to the auditor the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (f) They have disclosed to the auditor all known actual or suspected non-compliance with laws and regulations, the effects of which are to be considered when preparing the financial report; and
  - (g) They have disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the auditor's review report that may require adjustment to or disclosure in the financial report. (Ref: Para. A35)
25. If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation on the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate.

### **Auditor's Responsibility for Other Information**

26. The auditor shall read the other information that accompanies the financial report to consider whether there is a material inconsistency with the financial report. (Ref: Para. A36)
27. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management, and where appropriate, those charged with governance. (Ref: Para. A38)

### **Communication**

28. When, as a result of performing a review of a financial report, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall communicate this matter as soon as practicable to the appropriate level of management.
29. When, in the auditor's judgement, management does not respond appropriately within a reasonable period of time, the auditor shall inform those charged with governance. (Ref: Para. A39)
30. When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor shall consider:

- (a) Whether to modify the auditor's review report; or
  - (b) The possibility of withdrawing from the engagement; and
  - (c) The possibility of resigning from the appointment to audit the annual financial report.  
(Ref: Para.A37 and A60)
31. When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that indicates the existence of fraud or non-compliance with laws and regulations, or suspected fraud or non-compliance with laws and regulations, the auditor shall:
- (a) Communicate the matter unless prohibited by law or regulation, as soon as practicable to management and where appropriate those charged with governance;
  - (b) Request management's assessment of the effect (s) on the financial report;
  - (c) Consider the effect on the auditor's conclusion and the auditor's review report; and
  - (d) Determine whether law, regulation or relevant ethical requirements:
    - (i) require the auditor to report to an appropriate authority outside the entity;
    - (ii) establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. (Ref: Para. A39 – A41)
32. The auditor shall communicate relevant matters of governance interest arising from the review of the financial report to those charged with governance. (Ref: Para. A42 and A63)

**Reporting the Nature, Extent and Results of the Review of a Financial Report**

33. The auditor shall issue a written report that contains the following:
- (a) An appropriate title clearly identifying it as an review report of the independent auditor of the entity.
  - (b) An addressee, as required by the circumstances of the engagement.
34. The first section of the auditor's review report shall include the auditor's conclusion, and shall have the heading "Conclusion". The Conclusion section of the auditor's review report shall:
- (a) Identify the entity whose financial report has been reviewed;
  - (b) State that the financial report has been reviewed;
  - (c) Identify the title of each statement comprising the financial report;
  - (d) Refer to the notes, including a summary of significant accounting policies and other explanatory information<sup>2</sup>;
  - (e) Specify the date or, or the period covered by, each statement comprising the financial report; and
  - (f) Include a conclusion:
    - (i) When expressing an unmodified conclusion on a half-year financial report prepared in accordance with the *Corporations Act 2001*, the report shall include a conclusion as to whether the auditor has become aware of any matter

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<sup>2</sup> Refer AASB 134 *Interim Financial Reporting*. Relevant for a complete set of financial statements, if a condensed set use the term relevant.

that makes the auditor believe that the half-year financial report does not comply with the *Corporations Act 2001*, including giving a true and fair view of the financial position and its performance, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulation 2001*<sup>3</sup>.

- (ii) When expressing an unmodified conclusion on a financial report prepared in accordance with a fair presentation framework, the report shall include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report does not present fairly, in all material respects, or if applicable is not true and fair, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used).
  - (iii) When expressing an unmodified conclusion on a financial report prepared in accordance with a compliance framework, the report shall include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report has not been prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used). (Ref A43 and A44)
35. The report shall include a section directly following the Conclusion section, with the heading "Basis for Conclusion", that
- (a) States that the review of the financial report was conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*;
  - (b) Refers to the section of the auditor's review report that describes the auditor's responsibilities; and
  - (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia.
36. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Report". The auditor's review report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions the appropriate reference may be to those charged with governance. This section of the report shall describe the responsibilities of management for the preparation of the financial report in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.
37. When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities of management for the financial report in the auditor's review report shall refer to "the preparation and fair presentation of this financial report" or "the preparation of the financial report that gives a true and fair view", as appropriate in the circumstances.

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<sup>3</sup> See *Corporation Act 2001* section 309 (4)

38. The report shall include a section with a heading “Auditor’s Responsibilities for the Review of the Financial Report”. This section of the report shall:
- (a) State that the auditor is responsible for expressing a conclusion on the financial report based on the review;
  - (b) State that a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures; and
  - (c) State that a review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit, and that accordingly no audit opinion is expressed;
39. The report shall include:
- (a) The date the auditor signs the auditor’s review report;
  - (b) The location in the country or jurisdiction where the auditor practices;
  - (c) The name of the engagement partner where required by law or regulation<sup>4</sup>; and
  - (d) The auditor’s signature.

#### **Departure from the Applicable Financial Reporting Framework**

40. The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor’s attention that causes the auditor to believe that a material adjustment should be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall amend the heading “Basis for Conclusion” to “Basis for Qualified Conclusion” or “Basis for Adverse Conclusion” and describe the nature of the departure and, if practicable, state the effects 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 shall be included in the Basis for Qualified Conclusion or Basis for Adverse Conclusion section of the report. The conclusion paragraph shall be headed “Qualified Conclusion” or “Adverse Conclusion” whichever is relevant. (Ref: Para. A45)
41. When the effect of the departure is so material and pervasive to the financial report that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the financial report, the auditor shall express an adverse conclusion. (Ref: Para. A46)

#### **Limitation on Scope** (Ref: Para. A47)

42. When the auditor is unable to complete the review, the auditor shall communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a review report.

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<sup>4</sup> Consistent with ASA 700 paragraph 46, under the *Corporations Act 2001* the auditor of a company or registered scheme is required to sign the auditor’s review report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

**Limitation on Scope Imposed by Management**

43. Unless required by law or regulation, an auditor shall not accept an engagement to review a financial report when management has imposed a limitation on the scope of the auditor's review. (Ref: Para. A48)
44. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. (Ref: Para. A49)
45. If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed. (Ref: Para A50)
46. When the auditor disclaims a conclusion on the financial report, the auditor shall not include the elements required by paragraph 35 (b).
47. When the auditor disclaims a conclusion on the financial report, the auditor shall amend the description of the auditor's responsibilities required by paragraph 38 to include only:
- (a) A statement that the auditor's responsibility is to conduct a review of the entity's financial report in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*;
  - (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Conclusion section, the auditor was not able to obtain sufficient evidence to provide a basis for a review conclusion on the financial report.
  - (c) The statement about auditor independence and other ethical responsibilities required by paragraph 35(c).

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. A51-A52)

48. The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial report, and when the auditor concludes that an unqualified conclusion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. The conclusion paragraph shall be headed "Qualified Conclusion".

**Going Concern and Material Uncertainties** (Ref: Para. A53-A54)

*Use of going concern basis of accounting is appropriate*

49. If adequate disclosure about the material uncertainty is made in the financial report, the auditor shall express an unmodified review conclusion and the auditor's review report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to highlight a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. This section shall:
- (a) Draw attention to the note in the financial report that discloses the matter;
  - (b) State that the events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's conclusion is not modified in respect of the matter.

50. If a material uncertainty that casts significant doubt on the entity's ability to continue as a going concern is not adequately disclosed in the financial report, the auditor shall:
- (a) Express a qualified or adverse conclusion, as appropriate; and
  - (b) In the Basis for Qualified or Adverse Conclusion section of the auditor's review report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial report does not adequately disclose this matter.

*Use of going concern basis of accounting is inappropriate*

51. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial report is inappropriate, the auditor shall express an adverse conclusion.

**Emphasis of Matter Paragraph** (Ref: A56 and A57)

52. The auditor shall consider including an Emphasis of Matter paragraph in the auditor's review report to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
53. When the auditor includes an Emphasis of Matter paragraph in the auditor's review report the auditor shall:
- (a) Include the paragraph within a separate section of the auditor's review report with an appropriate heading that includes the term "Emphasis of Matter";
  - (b) Include a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial report. The paragraph shall refer only to information presented or disclosed in the financial report; and
  - (c) Indicate that the auditor's review conclusion is not modified in respect of the matter emphasised.

**Other Matter Paragraph**

54. The auditor shall consider including an Other Matter paragraph in the auditor's review report to communicate a matter other than those that are presented or disclosed in the financial report, that in the auditor's judgement is relevant to users' understanding of the review, the auditor's responsibilities, or the auditor's review report, if not prohibited by law or regulation. When including an Other Matter paragraph in the auditor's review report, the auditor shall include a separate section with the heading "Other Matter", or other appropriate heading.

**Documentation** (Ref: Para. A64)

55. The auditor shall prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion, and to provide evidence that the review was performed in accordance with this Auditing Standard and applicable legal and regulatory requirements.

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## **Application and Other Explanatory Material**

### **Objective** (Ref: Para. 4)

- A1. Under paragraph 13, the auditor needs to make enquiries, and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the financial report is materially misstated.
- A2. The objective of a review of a financial report differs significantly from that of an audit conducted in accordance with Australian Auditing Standards. A review of a financial report does not provide a basis for expressing an opinion whether the financial report gives a true and fair view, or is presented fairly, or has not been prepared, in all material respects, in accordance with the applicable financial reporting framework.
- A3. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the financial report to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

### **Performing a Review** (Ref: Para 6)

- A4. Through performing the audit of the annual financial report, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the financial report, under paragraph 13, the auditor needs to update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of a financial report, and who is not the auditor of the entity, does not perform the review in accordance with ASRE 2410\*, as the practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity.

Although other Auditing Standards do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this Auditing Standard.

### **General Principles of a Review of a Financial Report**

- A5. Relevant ethical requirements<sup>5</sup> govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.. (Ref: Para. 8)
- A6. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring. ASQC 1 and ASA 220<sup>6</sup> include guidance that may be helpful. (Ref: Para. 9)
- A7. An attitude of professional scepticism denotes that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that

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\* See ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.

<sup>5</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

<sup>6</sup> See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

contradicts or brings into question the reliability of documents or representations by management of the entity. ASA 200 includes guidance which may be helpful.\* (Ref: Para. 10)

### **Agreeing the Terms of the Engagement**

- A8. Written agreement of the terms of the engagement helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, the responsibilities of management and, where appropriate, those charged with governance, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:
- (a) the objective of a review of a financial report;
  - (b) the scope of the review;
  - (c) the responsibilities of management and, where appropriate, those charged with governance for:
    - (i) the preparation of the financial report in accordance with the applicable financial reporting framework including where relevant their fair presentation;
    - (ii) establishing and maintaining effective internal control relevant to the preparation of the financial report; and
    - (iii) making all financial records and related information available to the auditor;
  - (d) agreement from management and, where appropriate, those charged with governance:
    - (i) to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records; and
    - (ii) that where any document containing the financial report indicates that the financial report has been reviewed by the entity's auditor, the auditor's review report also will be included in the document; and
  - (e) the anticipated form and content of the report to be issued, including the identity of the addressee of the report.

An illustrative engagement letter is set out in Appendix 1. The terms of engagement to review a financial report can also be combined with the terms of engagement to audit the annual financial report. ASA 210 includes guidance which may be helpful.\* (Ref: Para. 12)

### **Procedures for a Review of a Financial Report**

#### **Understanding the Entity and its Environment, Including its Internal Control**

- A9. Under ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, the auditor who has audited the entity's financial report for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial report, that was sufficient to conduct the audit. In planning a review of a financial report, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of internal control as it relates to the

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\* See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

\* See ASA 210 *Agreeing the Terms of Audit Engagements*.

preparation of the financial report subject to review, as it may differ from internal control as it relates to the preparation of the annual financial report. (Ref: Para. 13)

- A10. The auditor needs to use the understanding of the entity and its environment, including its internal control, to determine the enquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which enquiries may be directed or analytical or other review procedures applied. (Ref: Para. 13)
- A11. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
- (a) reading the documentation, to the extent necessary, of the preceding year's audit, reviews of prior period(s) of the current year, and corresponding period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period financial report;
  - (b) considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial report;
  - (c) reading the most recent annual and comparable prior period financial report;
  - (d) considering materiality with reference to the applicable financial reporting framework as it relates to the financial report, to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements;
  - (e) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
  - (f) considering significant financial accounting and reporting matters that may be of continuing significance, such as material weaknesses in internal control;
  - (g) considering the results of any audit procedures performed with respect to the current year's financial report;
  - (h) considering the results of any internal audit performed and the subsequent actions taken by management;
  - (i) enquiring of management about the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (j) enquiring of management about the effect of changes in the entity's business activities;
  - (k) enquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of the financial report; and
  - (l) enquiring of management of the process by which the financial report has been prepared and the reliability of the underlying accounting records to which the financial report is agreed or reconciled. (Ref: Para. 13)
- A12. The auditor needs to determine the nature of the review procedures, if any, to be performed for components and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the financial information of the component, and the auditor's understanding of the extent to which internal control over the preparation of such financial information is centralised or decentralised. (Ref: Para. 13)
- A13. Obtaining an understanding of the entity and its environment enables the auditor to focus the enquiries made, and the analytical and other review procedures applied in performing a review

of the financial report in accordance with this Auditing Standard. As part of obtaining this understanding, ordinarily the auditor makes enquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit and for any prior periods in the current year that have been reviewed by the predecessor auditor. In doing so, ordinarily the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control. (Ref: Para. 14)

**Materiality** (Ref: Para. 15)

- A14. The auditor needs to use professional judgement and consider qualitative and quantitative factors in determining materiality.
- A15. Ordinarily, the auditor's consideration of materiality for a review of a financial report is based on the period financial data and accordingly, materiality based on interim period financial data may be less than materiality for annual financial data. If the entity's business is subject to cyclical variations or if the financial results for the current period show an exceptional decrease or increase compared to prior periods and expected results for the current year, the auditor may, for example, conclude that materiality is more appropriately determined using a normalised figure for the period.
- A16. The auditor's consideration of materiality, in evaluating the effects of misstatements, is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial report.
- A17. If the applicable financial reporting framework contains a definition of materiality, it will ordinarily provide a frame of reference to the auditor when determining materiality for planning and performing the review.
- A18. The auditor needs, when relevant, to consider materiality from the perspective of both the entity and the consolidated entity.

**Enquiries, Analytical and Other Review Procedures**

- A19. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of a financial report ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial report. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial report, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 16)
- A20. The auditor ordinarily performs the following procedures:
  - (a) Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquiring about matters dealt with at meetings for which minutes are not available that may affect the financial report.
  - (b) Considering the effect, if any, of matters giving rise to a modification of the audit or auditor's review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
  - (c) Communicating, where appropriate, with other auditors who are performing a review of the financial report of the entity's significant components.

- (d) Enquiring of members of management responsible for financial and accounting matters, and others as appropriate, about the following:
- (i) whether the financial report has been prepared and presented in accordance with the applicable financial reporting framework;
  - (ii) whether there have been any changes in accounting principles or in the methods of applying them;
  - (iii) whether any new transactions have necessitated the application of a new accounting principle;
  - (iv) whether the financial report contains any known uncorrected misstatements;
  - (v) unusual or complex situations that may have affected the financial report, such as a business combination or disposal of a segment of the business;
  - (vi) significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity;
  - (vii) whether related party transactions have been appropriately accounted for and disclosed in the financial report;
  - (viii) significant changes in commitments and contractual obligations;
  - (ix) significant changes in contingent assets and contingent liabilities including litigation or claims;
  - (x) compliance with debt covenants;
  - (xi) matters about which questions have arisen in the course of applying the review procedures;
  - (xii) significant transactions occurring in the last several days of the period or the first several days of the next period;
  - (xiii) knowledge of any fraud or suspected fraud affecting the entity involving:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial report; and
  - (xiv) knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial information communicated by employees, former employees, analysts, regulators or others; and
  - (xv) knowledge of any actual or suspected non-compliance with laws and regulations that could have a material effect on the financial report. If the auditor becomes aware of any actual or suspected non-compliance with laws and regulations *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report* provides guidance.
- (e) Applying analytical procedures to the financial report designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the financial report. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and

may be performed manually or with the use of computer-assisted auditing techniques. Appendix 2 to this Auditing Standard contains examples of analytical procedures the auditor may consider when performing a review of a financial report.

- (f) Reading the financial report and considering whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A21. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the financial report. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the period. Performing some of the review procedures earlier in the period also permits early identification and consideration of significant accounting matters affecting the financial report. (Ref: Para. 16)
- A22. The auditor performing a review of the financial report is also the auditor of the annual financial report of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of the financial report. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the financial report may also be used for the annual audit. The auditor may decide also to perform, at the time of the review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial report, for example, performing auditing procedures on:
- (a) significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions, or
  - (b) opening balances (when applicable). (Ref: Para. 16)
- A23. A review of a financial report ordinarily does not require corroborating the enquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an enquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims, or alternative procedures, may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the financial report is in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A24. The auditor may obtain evidence that the financial report agrees or reconciles with the underlying accounting records by tracing the financial report to:
- (a) the accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
  - (b) other supporting data in the entity's records as necessary. (Ref: Para. 17)
- A25. The auditor need not perform procedures to identify events occurring after the date of the auditor's review report. (Ref: Para. 18)
- A26. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial report, or may be identified as a result of enquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor needs to enquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor needs to enquire also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation. Ordinarily, the auditor considers, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation. (Ref: Para. 19)

- A27. For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract. (Ref: Para. 21)

**Comparatives – First Financial Report** (Ref: Para. 22)

- A28. When comparative information is included in the first financial report and the auditor is unable to obtain sufficient appropriate review evidence to achieve the review objective, a limitation on the scope of the review exists and the auditor needs to modify the auditor's review report. Ordinarily, a restriction on the scope of the auditor's work will result in a qualified ("except for") conclusion. In such cases, ordinarily an auditor encourages clear disclosure in the financial report, that the auditor has been unable to review the comparatives.
- A29. When comparative information is included in the first financial report and the auditor believes a material adjustment should be made to the financial report, under paragraph 39, the auditor needs to modify the auditor's review report.
- A30. When an entity has come into existence only within the first financial reporting period, comparative information will not be provided in the first financial report and no modified auditor's review report is required.
- A31. Accounting Standard AASB 101 *Presentation of Financial Statements* provides requirements and explanatory guidance relating to comparative information included in a financial report prepared in accordance with Australian Accounting Standards. Accounting Standard AASB 1 *First-time Adoption of Australian Accounting Standards* provides requirements and guidance relating to comparative information when an entity adopts Australian Accounting Standards for the first time.

**Evaluation of Misstatements** (Ref: Para. 23)

- A32. A review of a financial report, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
- A33. The auditor needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or current year, and the potential effect of the misstatements on future interim or annual periods.
- A34. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the financial report. In so doing, under paragraph 15, the auditor needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the financial report.

**Written Representations**

- A35. The auditor needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. An illustrative representation letter is set out in Appendix 1. (Ref: Para. 24)

### **Auditor's Responsibility for Other Information**

- A36. An auditor conducting review engagement under this auditing standard is not required to comply with ASA 720\*, however ASA 720 includes guidance which may be useful. ASA 720 requires the auditor to read the other information that accompanies the financial report to consider whether there is a material inconsistency with the financial report. If the auditor identifies a material inconsistency, the auditor needs to consider whether the financial report or the other information needs to be amended. If an amendment is necessary in the financial report and those charged with governance refuse to make the amendment, the auditor needs to consider the implications for the auditor's review report. If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may consider including an Other Information paragraph in the auditor's review report and describe the material misstatement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the financial report, and such alternative measures are given excessive prominence, or are not clearly defined, or not clearly reconciled to the financial report such that they are confusing and potentially misleading. (Ref: Para. 26)
- A37. For a review of a half-year financial report under the Corporations Act 2001 (Act), withholding the issuance of the auditor's review report and/or withdrawing from the review engagement are not options available under the Act. (Ref: Para. 30)
- A38. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (that is, information, not related to matters appearing in the financial report, that is incorrectly stated or presented). When discussing the matter with the entity's management, ordinarily the auditor considers the validity of the other information and management's responses to the auditor's enquiries, whether valid differences of judgement or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the auditor considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, obtaining legal advice, and considering the implications for the auditor's review report. ASA 720\* includes guidance which may be beneficial. (Ref: Para. 27)

### **Communication**

- A39. Communications with management and/or those charged with governance are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, under paragraph 55, the auditor needs to document the communication. (Ref: Para. 28 and 31)
- A40. The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management. Refer to ASA 250 for further guidance which may be helpful. (Ref: Para. 31)
- A41. Law or regulation may restrict the auditor's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulation to an appropriate authority pursuant to anti-money laundering legislation. In these

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\* See ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice. ASA 250 includes guidance which may be helpful, including where there may be additional communication required.<sup>7</sup> (Ref: Para. 31)

- A42. As a result of performing a review of a financial report, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. (Ref: Para. 32)

**Reporting the Nature, Extent and Results of the Review of a Financial Report** (Ref: Para. 33-34)

- A43. Appendix 4 contains illustrations of the auditor's review reports incorporating the elements in paragraphs 33 to 50. With the exception of the Conclusion and Basis for Conclusion sections, this Auditing Standard does not establish requirements for ordering the elements of the auditor's review report. This Auditing Standard requires the use of specific headings, which are intended to assist in making reports more consistent and recognisable. Also refer to A55 and A56 for guidance on the ordering of the review report.
- A44. Paragraph 34 (f) includes the conclusion required for reviews of financial reports conducted in accordance with the *Corporations Act 2001*, other financial reports prepared under a fair presentation framework and a compliance framework. In some cases, law or regulation governing the review of a financial report may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 34(f). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this Auditing Standard for coming to the conclusion remain the same. ASA 700 includes guidance which may be helpful.<sup>8</sup> Illustrative auditor's review reports are set out in Appendices 3 and 4.

**Departure from the Applicable Financial Reporting Framework** (Ref: Para. 40-41)

- A45. If matters have come to the auditor's attention that cause the auditor to believe that the financial report is or may be materially affected by a departure from the applicable financial reporting framework, and those charged with governance do not correct the financial report, the auditor needs to modify the auditor's review report. If the information that the auditor believes is necessary for adequate disclosure is not included in the financial report, the auditor needs to modify the auditor's review report and, if practicable, include the necessary information in the auditor's review report. Refer to ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* for guidance as to appropriate wording to use when issuing a modified conclusion. Also illustrative auditor's review reports with a qualified conclusion are set out in Appendix 4.
- A46. Departures from the applicable financial reporting framework, may result in an adverse conclusion. An illustrative auditor's review report with an adverse conclusion is set out in Appendix 4.

**Limitation on Scope** (Ref: Para. 42)

- A47. Ordinarily, a limitation on scope prevents the auditor from completing the review.

**Limitation on Scope Imposed by Management**

- A48. The auditor needs to refuse to accept an engagement to review a financial report if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity. (Ref: Para. 43)

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<sup>7</sup> See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

<sup>8</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

- A49. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor needs to request the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor needs to communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, under paragraphs 27, 28 and 30, the auditor needs to communicate such matters to the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. 44)
- A50. The auditor needs to consider the legal and regulatory requirements, including whether there is a legal requirement for the auditor to issue a report. If there is such a requirement, the auditor needs to disclaim a conclusion and provide in the auditor's review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework the auditor needs to communicate such a matter in the report. (Ref: Para. 45)

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. 48)

- A51. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management or those charged with governance. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion, and is guided by paragraphs 39 and 49. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the financial report. In such circumstances, the auditor needs to modify the auditor's review report by indicating that, except for the effects of the matter which is described in the Basis for Qualified Conclusion section of the auditor's review report, and the review was conducted in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Illustrative auditor's review reports with a qualified conclusion are set out in Appendix 4.
- A52. The auditor may have expressed a qualified opinion on the audit of the latest annual financial report because of a limitation on the scope of that audit. The auditor needs to consider whether that limitation on scope still exists and, if so, the implications for the auditor's review report.

**Going Concern and Material Uncertainties** (Ref: Para. 49 and 50)

- A53. The auditor may have alerted users to the existence of a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern by adding a separate section under the heading Material Uncertainty Related to Going Concern to a prior audit or auditor's review report. If the material uncertainty still exists and adequate disclosure is made in the financial report, the auditor needs to continue to alert users by adding a "Material Uncertainty Related to Going Concern" section to the auditor's review report to highlight the continued material uncertainty.
- A54. If, as a result of enquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that casts significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the financial report, the auditor alerts users by adding a "Material Uncertainty Related to Going Concern" section to the auditor's review report.
- A55. A Material Uncertainty Related to Going Concern section is preferably included after the Basis for Conclusion paragraph. ASA 570 *Going Concern* provides information that the auditor may find helpful in considering going concern in the context of the review engagement.

### **Emphasis of Matter Paragraphs**

- A56. Ordinarily, a significant uncertainty in relation to any other matter, the resolution of which may materially affect the financial report, would warrant an emphasis of matter paragraph in the auditor's review report. An emphasis of matter paragraph is preferably included after the Basis for Conclusion paragraph, or after the Material Uncertainty Related to Going Concern section if relevant.
- A57. The auditor's review report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the assurance practitioner's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.

### **Other Considerations**

- A58. The terms of the engagement include agreement by those charged with governance that, where any document containing a financial report indicates that the financial report has been reviewed by the entity's auditor, the auditor's review report will be also included in the document. If those charged with governance have not included the auditor's review report in the document, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances. (Ref: Para. 12)
- A59. If the auditor has issued a modified auditor's review report and those charged with governance issue the financial report without including the modified auditor's review report in the document containing the financial report, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial report.

### **Considerations Specific to Public Sector Entities**

- A60. The auditor needs to communicate the terms of engagement to the entity subject to the review. When communicating the terms of engagement, an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management's responsibilities, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Nevertheless, an engagement letter setting out the matters referred to in paragraph A8 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter. (Ref: Para. 12)
- A61. In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information.
- A62. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept, or to withdraw from a review engagement. The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial report. (Ref: Para. 30(b)-30(c) and 37)
- A63. The auditor needs to communicate to those charged with governance and consider the implications for the review when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or actual or suspected non-compliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities. (Ref: Para. 32)

**Documentation** (Ref: Para. 55)

- A64. The auditor needs to prepare documentation that enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the enquiries made and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

## **Appendix 1**

(Ref: Para. A8)

### **EXAMPLE OF AN ENGAGEMENT LETTER FOR A REVIEW OF A FINANCIAL REPORT**

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*.

To [those charged with governance:<sup>9</sup>]

#### **Scope**

You have requested that we review the half-year financial report<sup>10</sup> of [name of entity], which comprises the statement of financial position as at 31 December 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month<sup>11</sup> period ended on that date, and notes comprising significant accounting policies and other explanatory information and the directors' declaration. We are pleased to confirm our acceptance and our understanding of the terms and objectives of our engagement by means of this letter.

Our review will be conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* with the objective of providing us with a basis for reporting whether we have become aware of any matter that makes us believe that the half-year financial report does not comply with the *Corporations Act 2001*, including giving a true and fair view of the financial position and its performance, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulation 2001*.<sup>12</sup> Such a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of a financial report is substantially less than the scope of an audit conducted in accordance with Auditing Standards whose objective is the expression of an opinion regarding the financial report and accordingly, we shall express no such opinion. ASRE 2410 requires us to also comply with the ethical requirements relevant to the audit of the annual financial report of the entity.

We expect to report on the half-year financial report<sup>13</sup> as follows:

[Include text of sample auditor's review report - see Appendix 3 or 4 as appropriate.]

The directors [those charged with governance<sup>14</sup>] of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error. As part of our review, we shall request written representations from management concerning assertions made in connection with the review. We shall also request that where any document containing the half-year financial report indicates that the half-year financial report has been reviewed, our review report will also be included in the document.

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<sup>9</sup> Insert the appropriate term, such as "Directors" or "Board of Management".

<sup>10</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>11</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>12</sup> Amend as appropriate - refer paragraph 34 (f)

<sup>13</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>14</sup> Insert the appropriate term, such as "Directors or Board of Management".

The directors [those charged with governance] of the [company/registered scheme/disclosing entity] acknowledge and understand they have responsibility to provide us with:

- (i) access to information relevant to the preparation of the half-year financial report;
- (ii) additional information that we may request for the purposes of the review engagement; and
- (iii) unrestricted access to persons from whom we determine it is necessary to obtain evidence.

A review of the half-year financial report does not provide assurance that we shall become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we shall inform you of any material matters that come to our attention.

### **Independence**

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* and the Accounting Professional and Ethics Standard Board APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (The Code) in relation to the review of the half-year financial report. In conducting our review of the half-year financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our review process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the reviewed entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- The provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- The prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

### **Presentation of the reviewed half-year financial report in electronic format**

It is our understanding that [the entity] intends to publish a hard copy of the reviewed half-year financial report and the auditor's review report for members, and to electronically present the reviewed half-year financial report and the auditor's review report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by [the entity] to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of reviewed financial information on the entity's web site is beyond the scope of the review of the half-year financial report. Responsibility for the electronic presentation of the half-year financial report on the entity's web site is that of the [governing body of the entity].

### **Fees**

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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[This letter will be effective for future years unless it is terminated, amended or superseded.<sup>15</sup>]

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 review of the half-year financial report.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [entity] by

(signed)

.....

Name and Title

Date

---

<sup>15</sup> Use if applicable.

## **EXAMPLE OF A REPRESENTATION LETTER**

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*. Refer to paragraph 24 of this Auditing Standard for required representations.

Representations by management will vary from one entity to another and from one period to the next. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management have made oral representations which the auditor wishes to confirm in writing.

[Entity Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your review of the half-year<sup>16</sup> financial report<sup>17</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether you became aware of any matter in the course of the review that makes you believe that the half-year financial report does not comply with the *Corporations Act 2001*.

We acknowledge our responsibility for ensuring that the half-year financial report complies with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the [company/entity]’s financial position as at [date] and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

We confirm that the half-year financial report is prepared and presented in accordance with the *Corporations Act 2001* and is free of material misstatements, including omissions.

OR

[This representation letter is provided in connection with your review of the financial report<sup>18</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether anything has come to your attention that causes you to believe that the financial report does present fairly, in all material respects<sup>19</sup>, in accordance with [the applicable financial reporting framework<sup>20</sup>].

We acknowledge our responsibility for ensuring that the financial report is in accordance with [applicable financial reporting framework].

We confirm that the financial report is prepared and presented fairly in accordance with [applicable financial reporting framework] and 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 review.

[Include representations required by this Auditing Standard (paragraph 24) and those relevant to the entity. Such representations may include the following examples.]

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<sup>16</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>17</sup> If the term “half-year financial report” is not appropriate, then this term should be changed to reflect the type of report being reviewed.

<sup>18</sup> The term “financial report” should be changed to reflect the type of report being reviewed, as appropriate.

<sup>19</sup> If a compliance framework are wording in paragraph 34 (f) (iii)

<sup>20</sup> Specify the applicable financial reporting framework/requirements.

We have made available to you:

- (a) all financial records and related data, other information, explanations and assistance necessary for the conduct of the review; and
- (b) minutes of all meetings of [shareholders, directors, committees of directors, Boards of Management].

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.

There:

- (a) has been no fraud or suspected fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
- (b) has been no fraud or suspected fraud, error or non-compliance with laws and regulations that could have a material effect on the financial report; and
- (c) 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.

We are responsible for an adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of a reliable financial report, and adequate financial records have been maintained. There are no material transactions that have not been recorded properly in the accounting records underlying the financial report.

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

We have considered the requirements of Accounting Standard AASB 136 *Impairment of Assets*, when assessing the impairment of assets and in ensuring that no assets are stated in excess of their recoverable amount.

We believe the effects of uncorrected misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the [half-year] financial report taken as a whole.

The following have been recorded and/or disclosed properly in the [half-year] financial report:

- (a) related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral);
- (b) share options, warrants, conversions or other requirements;
- (c) arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements;
- (d) agreements to repurchase assets previously sold;
- (e) material liabilities or contingent liabilities or assets including those arising under derivative financial instruments;
- (f) unasserted claims or assessments that our lawyer(s) has advised us are probable of assertion;
- (g) losses arising from the fulfilment of, or an inability to fulfil, any sale commitments or as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices; and

- (h) all known actual or possible litigation and claims whose effects should be considered when preparing the financial report in accordance with the applicable financial reporting framework.

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.

The entity has satisfactory title to all assets, and there are no liens or encumbrances on such assets that have not been disclosed nor has any asset been pledged as collateral. Allowances for depreciation have been adjusted for all important items of property, plant and equipment that have been abandoned or are otherwise unusable.

The entity has complied with all aspects of contractual agreements that would have a material effect on the financial report in the event of non-compliance.

There were no material commitments for construction or acquisition of property, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial report.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

No events have occurred subsequent to the balance sheet date through to the date of this letter that would require adjustment to, or disclosure in, the [financial report].

We understand that your examination was made in accordance with Auditing Standard on Review Engagements ASRE 2410 and was, therefore, designed primarily for the purpose of expressing a conclusion on the financial report of [the entity], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

*Notes:*

[The above example representation letter may need to be amended in certain circumstances. The following illustrate some of those situations.]

### **Exceptions**

Where matters are disclosed in the financial report, the associated representation needs to be amended, for example:

- If a subsequent event has been disclosed, Item 14 (above) could be modified to read:  
“Except as discussed in Note X to the financial report, no events have occurred ....”
- If the entity has plans that impact the carrying values of assets and liabilities, Item 5 (above) could be modified to read:  
“The entity has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plan to dispose of segment X, as disclosed in note Y in the financial report, which is discussed in the minutes of the meeting of the governing body<sup>21</sup> held on [date]”.

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<sup>21</sup> Insert the appropriate term, such as “Directors or Board of Management”.

### **Other Required Information**

Certain entities may be required to include other information in the financial report, for example, performance indicators for government entities. In addition to identifying this information and the applicable financial reporting framework in paragraphs 1 and 2 of the example management representation letter, an additional paragraph similar to the following may be appropriate:

“The disclosures of key performance indicators have been prepared and presented in conformity with [relevant statutory requirements] and we consider the indicators reported to be relevant to the stated objectives of the [entity]”.

### **Management’s Opinions and Representation in the Notes to the Financial Statements**

Where the notes to the financial statements include opinions and representations by management, such matters may be addressed in the representation letter. For example, notes relating to the anticipated outcome of litigation, the intent and ability to hold long-term securities to maturity and plans necessary to support the going concern basis.

### **Environmental Matters**

In situations where there are environmental matters that may, but probably will not, require an outflow of resources, this may be reflected in an addition to Item 9 (above), for example:

“However, the [entity] has received a notice from the Environmental Protection Agency that it may be required to share in the cost of cleanup of the [name] waste disposal site. This matter has been disclosed in Note A in the financial report and we believe that the disclosure and estimated contingent loss is reasonable based on available information.”

### **Compliance**

If, as part of the review, the auditor is required also to report on the entity’s compliance with laws and regulations, a representation may be appropriate acknowledging that management is responsible for the entity’s compliance with applicable laws and regulations and that the requirements have been met. For example, for reviews under the *Corporations Act 2001*, the following paragraph may be added:

“The financial records of the [company, registered scheme or disclosing entity] have been kept so as to be sufficient to enable a financial report to be prepared and reviewed, and other records and registers required by the *Corporations Act 2001* have been kept properly and are up-to-date.

### **Other Matters**

Additional representations that may be appropriate in specific situations may include the following:

- Justification for a change in accounting policy.
- The work of a management expert has been used.
- Arrangements for controlling the dissemination of the financial report and auditor’s review report on the Internet.

## **Appendix 2**

(Ref: Para. A20)

### **ANALYTICAL PROCEDURES THE AUDITOR MAY CONSIDER WHEN PERFORMING A REVIEW OF A FINANCIAL REPORT**

The analytical procedures carried out in a review of a financial report are determined by the auditor's judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

Examples of analytical procedures the auditor may consider when performing a review of a financial report include the following:

- Comparing the financial report with the financial report of the immediately preceding period, with the financial report of the corresponding period of the preceding financial year, with the financial report that was expected by management for the current period, and with the most recent audited annual financial report.
- Comparing the current financial report with anticipated results, such as budgets or forecasts. For example, comparing sources of revenue and the and the cost of sales in the current financial report with corresponding information in:
  - budgets, including expected gross margin(s); and
  - financial information for prior periods.
- Comparing the current financial report with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial report with corresponding relationships in the financial report of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
  - by product line or source of revenue;
  - by location, for example by component;
  - by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
  - by several attributes of the transaction, for example, sales by product and month.

## **ILLUSTRATIVE DETAILED PROCEDURES THAT MAY BE PERFORMED IN AN ENGAGEMENT TO REVIEW A FINANCIAL REPORT**

The enquiry, analytical and other procedures carried out in a review of a financial report are determined by the auditor exercising professional judgement in light of the auditor's assessment of the risk of material misstatement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

### *General*

1. Confirm that the engagement team complies with relevant independence and ethical requirements.
2. Prepare and send an engagement letter to the entity.
3. Discuss the terms and scope of the engagement with the engagement team.
4. Obtain or update knowledge and understanding of the business, the key internal and external changes (including laws and regulations), and their effect on the scope of the review, materiality and risk assessment. This can be performed through the following:
  - a. Ascertaining whether there have been any significant changes to the nature and scope of operations.
  - b. Considering the results and effects of previous audits and review engagements.
  - c. Enquiring of persons responsible for financial reporting in respect of matters that impact on the reliability of the underlying accounting records. For example, considering fraud risk, material weaknesses in internal controls and any significant changes to internal control policies and procedures
  - d. Considering the results of any internal audits performed and the subsequent actions taken by management.
  - e. Considering whether additional procedures will be required on any significant accounts where internal controls relating to significant processes have been historically unreliable in detecting and preventing errors in the financial report.
  - f. The auditor shall enquire of management and, where appropriate, those charged with governance, as to the existence of any actual or suspected non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. Refer to ASA 250 for further guidance if considered appropriate.

Assess the relevance and impact of the results of the above procedures on the current period.

5. Determine materiality, exercising professional judgement, considering both qualitative and quantitative factors.
6. Enquire of persons responsible for financial reporting about the following:
  - a. Accounting policies adopted and consider whether:
    - i. they comply with the applicable financial reporting framework;
    - ii. they have been applied appropriately; and
    - iii. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.

- b. Policies and procedures used to assess asset impairment and any consequential estimation of recoverable amount.
  - c. The policies and procedures to determine the fair value of financial assets and financial liabilities.
  - d. New, unusual or complex situations that may have affected the financial report such as a business combination or disposal of a segment of the business. Consider adequacy of additional note disclosures in the financial report.
  - e. Plans to dispose of major assets or business segments.
  - f. Material off-balance sheet transactions, special purpose entities and other equity investments and related accounting treatment and disclosure.
  - g. Knowledge of any allegations of fraud, or suspected fraud.
  - h. Knowledge of any actual or possible significant non-compliance with laws and regulations.
  - i. Compliance with debt covenants.
  - j. Material or unusual related party transactions.
  - k. New or significant changes in commitments, contractual obligations.
7. Obtain and read the minutes of meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquire about matters dealt with at meetings for which minutes are not yet available that may affect the financial report.
8. Enquire if actions taken at meetings of shareholders or those charged with governance that affect the financial report have been appropriately reflected therein.
9. Ensure the financial report is agreed to the trial balance including disclosures. If applicable, enquire as to whether all intercompany balances have been eliminated.
10. Review other information included in the financial report and document findings. Discuss any material misstatements of fact with the entity's management.

#### *Cash*

11. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel to assess reasonableness.
12. Enquire about transfers between cash accounts for the period before and after the review date.
13. Enquire whether there are any restrictions on cash accounts.

#### *Revenue and Receivables*

14. Enquire about the accounting policies for recognising sales revenue and trade receivables and determine whether they have been consistently and appropriately applied.
15. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
16. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.

17. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectability of receivables.
18. Consider, with management, the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, those charged with governance and other related parties in the financial report.
19. Enquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
20. Enquire whether receivables have been pledged, factored or discounted and determine whether they have been properly accounted for.
21. Enquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
22. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
23. Enquire whether any large credits relating to recorded income have been issued after the balance sheet reporting date and whether provision has been made for such amounts. Consider the reasonableness of any provisions.

#### *Inventories*

24. Obtain the inventory list and determine whether:
  - a. the total agrees with the balance in the trial balance; and
  - b. the list is based on a physical count of inventory.
25. Enquire about the method for counting inventory.
26. Where a physical count was not carried out on the balance sheet date, enquire whether:
  - a. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
  - b. an integrated cost system is used and whether it has produced reliable information in the past.
27. Consider adjustments made resulting from the last physical inventory count.
28. Enquire about procedures applied to control cut-off and any inventory movements.
29. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of inter-branch profits. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and replacement cost for not-for-profit organisations).
30. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
31. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
32. Compare inventory turnover with that in previous periods.
33. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.

34. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.
35. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

*Investments (Including Associated Entities and Financial Instruments)*

36. Obtain a schedule of the investments at the balance sheet reporting date and determine whether it agrees with the trial balance.
37. Enquire whether the accounting policy applied to investments is consistent with prior periods.
38. Enquire from management about the carrying values of investments. Consider whether there are any realisation problems.
39. Enquire whether there are any new investments, including business combinations. Consider classification, measurement and disclosure in respect of material or significant acquisitions.
40. Consider whether gains and losses and investment income have been properly accounted for.
41. Enquire about the classification of long-term and short-term investments.

*Property Plant and Equipment and Depreciation*

42. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
43. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether there are any indicators of impairment and whether the property, plant and equipment have suffered a material, permanent impairment in value.
44. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on disposals or de-recognition. Enquire whether all such transactions have been properly accounted for.
45. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
46. Enquire whether there are any restrictions on the property, plant and equipment.
47. Enquire whether lease agreements have been properly reflected in the financial report in conformity with current accounting pronouncements.

*Prepaid Expenses, Intangibles and Other Assets*

48. Obtain schedules identifying the nature of these accounts and determine whether they agree with the trial balance. Discuss recoverability thereof with management.
49. Enquire whether management have updated their impairment calculations in respect of goodwill or other intangibles. Consider whether there have been any indicators of impairment for intangibles and enquire whether management have appropriately considered discount rates, growth rates, etc.
50. Enquire about the basis for recording these accounts and the amortisation methods used.
51. Compare balances of related expense accounts with those of prior periods and obtain explanations for significant variations with management.

Discuss the classification between current and non-current accounts with management.

*Investment Property*

52. Obtain a schedule of investment property and determine whether it agrees with the trial balance.
53. Enquire whether the accounting policy applied to investment property is consistent with prior periods.
54. Update with management the acquisitions and disposals to investment property and accounting for gains and losses on disposals or de-recognition. Determine whether all significant transactions have been accounted for appropriately.
55. Consider whether there are any indicators of impairment and whether any investment property was subject to recent valuations.

*Loans Payable*

56. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
57. Enquire whether there are any loans where there has been a change to the terms and conditions or management has not complied with the provisions of the loan agreement, including any debt covenants. Assess whether loans have been appropriately classified as current or non-current in the financial report.
58. Where material, consider the reasonableness of interest expense in relation to loan balances.
59. Enquire whether loans payable are secured. Review loan and working capital facilities. Enquire if options to extend terms have been exercised or if any debt requires refinancing.

*Trade Payables*

60. Enquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
61. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
62. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
63. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
64. Consider whether there could be material unrecorded liabilities.
65. Enquire whether payables to shareholders, those charged with governance and other related parties are separately disclosed.

*Other Liabilities and Contingent Liabilities*

66. Obtain a schedule of other liabilities and determine whether the total agrees with the trial balance.
67. Compare major balances of related expense accounts with similar accounts for prior periods.
68. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.

- 69. Enquire about other liabilities to assess whether the methodology and assumptions adopted are consistent with prior periods. Enquire whether there are any unusual trends and developments affecting accounting estimates.
- 70. Enquire as to the nature of amounts included in contingent liabilities and commitments.
- 71. Enquire whether any actual or contingent liabilities exist which have not been recognised in the accounts. If so, enquire with management and/or those charged with governance whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial report.

*Income and Other Taxes*

- 72. Enquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity. Examine correspondence in relation to any significant matters arising and assess whether events have been reflected appropriately in the financial report.
- 73. Consider the tax expense in relation to the entity's income for the period.
- 74. Enquire from management as to the adequacy of the recognised deferred and current tax assets and/or liabilities including provisions in respect of prior periods.

*Financial Instruments*

- 75. Enquire or update knowledge and understanding with persons responsible for financial reporting (including any treasury specialist), of what derivatives are in place, what accounting policies are applied to these derivatives and whether they have been consistently applied.
- 76. Enquire whether any hedges have been entered into for speculative purposes.
- 77. Enquire whether there are adequate policies and procedures to determine the fair value of financial assets and financial liabilities.
- 78. Enquire whether there are any sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity.

*Employee Share Plans*

- 79. Enquire about any new employee share plans or changes to existing plans, and where employee share plans are material, assess whether the accounting methodology has been consistently applied.

*Subsequent Events*

- 80. Obtain from management the latest financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding year.
- 81. Enquire about events after the balance sheet reporting date that would have a material effect on the financial report under review and, in particular, enquire whether:
  - a. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
  - b. any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and
  - c. any unusual adjustments have been made during the period between the balance sheet reporting date and the date of enquiry.

Consider the need for adjustments or disclosure in the financial report.

82. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the balance sheet date and consider any impact of the financial report and disclosures.

*Litigation*

83. Enquire from persons responsible for financial reporting, and where appropriate in-house litigation specialists, whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the financial report and any provision for loss.

*Equity*

84. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends. Consider whether there are any unusual terms for new issues of debt or equity which could affect classification.
85. Enquire whether there are any restrictions on retained earnings or other equity accounts.

*Operations*

86. Compare results with those of prior periods and those expected for the current period. Obtain explanations of significant variations with management.
87. Enquire whether the recognition of major revenue and expenses have taken place in the appropriate periods.
88. Enquire whether the policies and procedures related to revenue recognition, including accrued income, have been consistently applied and whether there are any new or complex changes, including any changes in major contracts with customers or suppliers.
89. Consider and update with management the relationship between related items in the revenue account and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the auditor.
90. Discuss the policy in respect of capitalisation of interest and whether it is in accordance with Australian Accounting Standards.

*Going Concern Assessment*

91. Consider the going concern assumption. When events or conditions come to attention which may cast significant doubt on the entity's ability to continue as a going concern, perform additional procedures to assess the impact on the financial report and auditor's review report as required by paragraph 19 of this Auditing Standard. Additional procedures include:
- a. Discussion with those charged with governance to understand the events and circumstances that have contributed to the current situation to determine whether the risk arising can be mitigated.
  - b. Plans for future actions, such as plans or intentions to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
  - c. Feasibility of the plans and whether those charged with governance believe that the outcome of these plans will improve the situation.

Consider the adequacy of disclosure about such matters in the financial report. Auditors may also refer to ASA 570 *Going Concern* for guidance which may be helpful.

*Evaluation of Misstatements*

- 92. Ensure significant review differences have been summarised and their effect evaluated.
- 93. Ensure material adjustments identified are notified to management/ those charged with governance (as appropriate).

*Written Representations*

- 94. Obtain written representation from the directors/management/those charged with governance (as appropriate) to confirm matters arising during the course of the review engagement.

*Documentation*

- 95. Ensure that review documentation is sufficient and appropriate to provide a basis for the conclusion and to provide evidence of compliance with ASRE 2410.

## **Appendix 3**

(Ref: Para. A44)

### **AN AUDITOR'S REVIEW REPORT UNDER THE *CORPORATIONS ACT 2001***

#### **Financial Report for a Half-year**

##### **Introduction**

1. This Appendix has been prepared to assist an auditor, engaged to undertake a review engagement, by providing an example of an auditor's review report on a review of a financial report for a half-year prepared in accordance with Part 2M.3 of the *Corporations Act 2001* (The Act). The example reflects both requirements of this Auditing Standard and the Act, but is not intended to require standard wording for the circumstances of particular modifications.
2. This Appendix contains limited extracts from the Act and the Australian Accounting Standards in order to provide a context for the example report included in this Appendix. These selected extracts are included in this Appendix only for the purpose stated and accordingly are not intended to be an exhaustive list of an auditor's obligations and requirements which are found elsewhere in this Auditing Standard, the Act, the Australian Accounting Standards and other relevant mandates.
3. This Appendix:
  - a) Includes selected extracts from the Act and Australian Accounting Standards, and references to other relevant information, to provide a contextual framework; and
  - b) Provides an example of an auditor's review report.

##### **Contextual Framework**

###### ***Corporations Act 2001***

The following selected extracts from the Act are included in this Appendix only to point to some of the important requirements of the Act that affect auditors engaged to undertake a review engagement in accordance with the Act.

4. Section 302 states:

"A disclosing entity<sup>22</sup> must:

  - a) prepare a financial report and directors' report for each half-year; and
  - b) have the financial report audited or reviewed in accordance with Division 3 and obtain an auditor's report; and
  - c) lodge the financial report, the director's report and the auditor's report on the financial report with ASIC;

unless the entity is not a disclosing entity when lodgement is due".

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<sup>22</sup> The definition of a "disclosing entity" is found in Part 1.2A, Division 2, section 111AC of the *Corporations Act 2001*.

5. Section 303(1) states:

- a) “The financial report for a half-year consists of:
- b) the financial statements for the half-year;
- c) the notes to the financial statements; and
- d) the directors’ declaration about the statements and notes”.

6. Section 304 states:

“The financial report for a half-year must comply with the accounting standards and any further requirements in the regulations”.

7. Section 305 states:

“The financial statements and notes for a half-year must give a true and fair view of:

- a) the financial position and performance of the disclosing entity; or
- b) if consolidated financial statements are required the financial position and performance of the consolidated entity.

This section does not affect the obligation under section 304 for financial reports to comply with accounting standards.

**Note:** If the financial statements prepared in compliance with the accounting standards would not give a true and fair view, additional information must be included in the notes to the financial statements under paragraph 303(3)(c)”.

8. Section 309(4) states:

“An auditor who reviews the financial report for a half-year must report to members on whether the auditor became aware of any matter in the course of the review that makes the auditor believe the financial report does not comply with Division 2”.

9. Section 309(5) states:

“A report under subsection (4) must:

- a) Describe any matter referred to in subsection (4); and
- b) Say why that matter makes the auditor believe that the financial report does not comply with Division 2”.

10. Section 309(5A) states:

“The auditor’s report must include any statements or disclosures required by the auditing standards”.

11. Section 320 states:

“A disclosing entity that has to prepare or obtain a report for a half-year under Division 2 must lodge the report with ASIC within 75 days after the end of the half-year”.

**Other Information – ASIC and ASX**

12. An auditor, in the role of auditor, is required by section 311 of the Act to notify ASIC if the auditor is aware of certain circumstances. ASIC Regulatory Guide 34 *Auditors' obligations: reporting to ASIC* (May 2013), provides guidance to help auditors comply with their obligations under section 311 of the Act.
13. ASIC and the ASX have agreed that listed entities can satisfy the requirements of the Act by lodging the half-year financial report, the directors' report, and the auditor's review report on the financial report with the ASX. Details are provided in ASIC Regulatory Guide 28 *Relief from dual lodgement of financial reports* (July 2003) and *ASIC Corporations (Electronic Lodgement of Financial Reports) Instrument 2601/181*.

**Australian Accounting Standards**

14. Minimum Components of an Interim Financial Report – AASB 134 *Interim Financial Reporting*, paragraph 8:

An interim financial report shall include, at a minimum, the following components:

- a) a condensed statement of financial position;
- b) a condensed statement or condensed statements of profit or loss and other comprehensive income;
- c) a condensed statement of changes in equity;
- d) a condensed statement of cash flows; and
- e) selected explanatory notes.

15. Form and Content of Interim Financial Reports - AASB 134 paragraph 9 states:

"If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of AASB 101 for a complete set of financial statements".

16. Form and Content of Interim Financial Reports – AASB 134 paragraph 10 states:

"If an entity publishes a set of condensed financial statements in its interim financial report, that condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading".

17. Materiality - AASB 134 paragraph 23 states:

"In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data".

**EXAMPLE UNMODIFIED AUDITOR'S REVIEW REPORT ON A  
HALF-YEAR FINANCIAL REPORT – SINGLE LISTED COMPANY –  
CORPORATIONS ACT 2001**

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of [name of entity]

**Report on the Half-Year Financial Report<sup>23</sup>**

*Conclusion*

We have reviewed the half-year financial report of [name of entity], which comprises the statement of financial position as at 31 December 20XX, the statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, a summary of significant accounting policies<sup>24</sup> and other explanatory information, and the directors' declaration.<sup>25</sup>

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of [name of company/registered scheme/disclosing entity] does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the [name of entity's] financial position as at 31 December 20XX and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.<sup>26</sup>

*Responsibilities of the Directors for the Financial Report*

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors

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<sup>23</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>24</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>25</sup> When the auditor is aware that the half-year financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited half-year financial report is presented.

<sup>26</sup> Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's review report was made.

determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 20XX and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's name and signature]<sup>27</sup>

[Name of firm]<sup>29</sup>

[Date of the auditor's review report]<sup>28</sup>

[Auditor's address]

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<sup>27</sup> Consistent with ASA 700 Paragraph 46, under the *Corporations Act 2001* the auditor of a company or registered scheme is required to sign the auditors' review report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

<sup>28</sup> The date of the auditor's report is the date the auditor signs the report.

## **Appendix 4**

(Ref: Para. A43)

### **Illustrations of Auditors' Review Reports for financial reports not prepared under the *Corporations Act 2001* —Unmodified and Modified Conclusions**

Example A - Unmodified Auditor's Review Report - Fair Presentation

Example B - Auditor's Review Report with a Qualified Conclusion (Except For) for a Departure from the Applicable Financial Reporting Framework - Fair Presentation Framework

Example C - Auditor's Review Report with a Qualified Conclusion for a Limitation On Scope Not Imposed by Management- Fair Presentation Framework

Example D - Auditor's Review Report with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework - Fair Presentation Framework

Example E - Unmodified Auditor's Review Report on a Financial Report – Compliance Framework

## **EXAMPLE A - UNMODIFIED AUDITOR'S REVIEW REPORT ON A FINANCIAL REPORT - FAIR PRESENTATION**

### **INDEPENDENT AUDITOR'S REVIEW REPORT**

To [appropriate addressee]

#### **Report on the [appropriate title for the financial report] Financial Report<sup>29</sup>**

##### *Conclusion*

We have reviewed the [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies<sup>30</sup> and other explanatory information, and [the declaration by those charged with governance].<sup>31,32</sup>

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>33</sup>] the financial position of the [entity] as at [date], and its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

##### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

##### *Responsibilities of Management for the Financial Report<sup>34</sup>*

Management of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control management determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

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<sup>29</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>30</sup> Insert relevant statement or description of accounting policies as required by AASB 134

<sup>31</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>32</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>33</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>34</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial report does not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the [entity] as at [date] and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]<sup>35</sup>

[Date of the auditor's review report]<sup>36</sup>

[Auditor's address]

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<sup>35</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>36</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE B - AUDITOR'S REVIEW REPORT WITH A QUALIFIED CONCLUSION (EXCEPT FOR) FOR A DEPARTURE FROM THE APPLICABLE FINANCIAL REPORTING FRAMEWORK – FAIR PRESENTATION FRAMEWORK**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>37</sup>**

*Qualified Conclusion*

We have reviewed the [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies<sup>38</sup> and other explanatory information, and [the declaration by those charged with governance<sup>39</sup>].<sup>40,41</sup>

Based on our review, which is not an audit, except for the effects of the matter described in the *Basis for Qualified Conclusion* section, nothing has come to our attention that causes us to believe that the accompanying [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>42</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

Based on information provided to us by management, [name of entity] has excluded from property and long-term debt certain lease obligations that we believe should be capitalised to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$ \_\_\_\_\_, long-term debt by \$ \_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$ \_\_\_\_\_ and \$ \_\_\_\_\_ respectively for the [period] ended on that date.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*Responsibility of Management for the Financial Report<sup>43</sup>*

Management are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the

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<sup>37</sup> The sub-title “Report on the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.

<sup>38</sup> Insert relevant statement or description of accounting policies as required by AASB 134

<sup>39</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>40</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>41</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>42</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>43</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibilities for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>44</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]<sup>45</sup>

[Date of the auditor's review report]<sup>46</sup>

[Auditor's address]

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<sup>44</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>45</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>46</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE C - AUDITOR'S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION FOR A LIMITATION ON SCOPE NOT IMPOSED BY  
MANAGEMENT - FAIR PRESENTATION FRAMEWORK**

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>47</sup>**

*Qualified Conclusion*

We have reviewed the [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies<sup>48</sup> and other explanatory information, and [the declaration by those charged with governance<sup>49</sup>].<sup>50+51</sup>

Based on our review, which is not an audit, except for the possible effects of the matter described in the *Basis for Qualified Conclusion* section, nothing has come to our attention that causes us to believe that the accompanying [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>52</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

As a result of a fire in a branch office on [date] that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$\_\_\_\_\_ included in the [period] financial report. The [entity] is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. We consider the possible effects incapable of reliable measurement at this time. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the [period] financial report.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*Responsibility of Management for the Financial Report<sup>53</sup>*

Management of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as management determine is necessary to enable the preparation and fair

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<sup>47</sup> The sub-title “Report on the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.

<sup>48</sup> Insert relevant statement or description of accounting policies as required by AASB 134

<sup>49</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>50</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>51</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>52</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>53</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>54</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>55</sup>]

[Date of the auditor's review report<sup>56</sup>]

[Auditor's address]

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<sup>54</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report, contains information on the wording of reports that may be helpful.

<sup>55</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>56</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE D AUDITOR'S REVIEW REPORT WITH AN ADVERSE  
CONCLUSION FOR A DEPARTURE FROM THE APPLICABLE FINANCIAL  
REPORTING FRAMEWORK - FAIR PRESENTATION**

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>57</sup>**

*Adverse Conclusion*

We have reviewed the [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, a summary of significant accounting policies<sup>58</sup> and other explanatory information, and [the declaration of those charged with governance<sup>59</sup>].<sup>60,61</sup>

Based on our review, which is not an audit, because of the significance of the matter described in the *Basis for Adverse Conclusion* section of our report, the accompanying [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of<sup>62</sup>”] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Adverse Conclusion*

As explained in Note X, commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial reports of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [applicable financial reporting framework]. Had a consolidated financial report been prepared, virtually every account in the financial report would have been materially different. The effects on the financial report of the failure to consolidated have not been determined.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*Responsibility of Management for the Financial Report<sup>63</sup>*

Management of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as management determine is necessary to enable the preparation and fair

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<sup>57</sup> The sub-title “Report on the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.

<sup>58</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>59</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>60</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>61</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>62</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>63</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>64</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>65</sup>]

[Date of the auditor's review report]<sup>66</sup>

[Auditor's address]

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<sup>64</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>65</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>66</sup> The date of the auditor's report is the date the auditor signs the report.

## **EXAMPLE E - UNMODIFIED AUDITOR'S REVIEW REPORT ON A FINANCIAL REPORT - COMPLIANCE FRAMEWORK**

### **INDEPENDENT AUDITOR'S REVIEW REPORT**

To [appropriate addressee]

#### **Report on the [appropriate title for the financial report] Financial Report<sup>67</sup>**

##### *Conclusion*

We have reviewed the [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies<sup>68</sup> and other explanatory information, and [the declaration by those charged with governance<sup>69</sup>].<sup>70 71</sup>

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying [period] financial report of [name of entity] has not been prepared, in all material respects, in accordance with [applicable financial reporting framework].

##### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

##### *Responsibility of Management for the Financial Report<sup>72</sup>*

Management of the [type of entity] are responsible for the preparation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control management determine is necessary to enable the preparation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

##### *Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the financial report has not been prepared, in all material respects in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards

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<sup>67</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>68</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>69</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>70</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>71</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>72</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]<sup>73</sup>

[Date of the auditor's review report]<sup>74</sup>

[Auditor's address]

---

<sup>73</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>74</sup> The date of the auditor's report is the date the auditor signs the report.

**ASRE 2410**  
(June 2020)

**Auditing Standard on Review  
Engagements ASRE 2410**  
*Review of a Financial Report Performed by  
the Independent Auditor of the Entity*

Issued by the Auditing and Assurance Standards Board



**Australian Government**  
**Auditing and Assurance Standards Board**

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This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## PREFACE

### Reasons for Issuing ASRE 2410

The AUASB issues Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

### Main Features

This Standard on Review Engagements establishes requirements and provides application and other explanatory material regarding the responsibilities of an auditor of an entity when engaged to undertake a review of a financial report, and on the form and content of the auditor's review report.

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard on Review Engagements is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

R Simnett AO  
Chair - AUASB

**Auditing Standard on Review Engagements ASRE 2410**  
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**Conformity with International Standards on Review Engagements**

**Commented [AW1]:** Moved from the back of the standard as in extant ASRE 2410, for consistency with ASAs.

This Auditing Standard on Review Engagements conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

In 2009 extant ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity* was reissued by the AUASB in clarity format. The underlying standard to extant ASRE 2410 is ISRE 2410 which has not been drafted in “clarity” format by the IAASB.

Additionally in 2009, following consultation with stakeholders in Australia in accordance with normal exposure draft processes, the AUASB decided that:

- due to the nature of reviews of other historical financial information, a separate Standard is more appropriate than ASRE 2410 being adapted by the auditor for this purpose; and
- ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, developed by the AUASB, deals with reviews of other historical financial information.

At the time of issuing extant ASRE 2410 the AUASB determined that it conformed, with the exceptions listed below, to ISRE 2410 to the extent that ISRE 2410 deals with the review of financial statements by the auditor of the entity.

In 2019, following consultation with stakeholders in Australia, further amendments to ASRE 2410 were made to align the reporting requirements with the revised auditor reporting requirements contained in ASA 700 *Forming an Opinion and Reporting on a Financial Report* (operative for financial reporting periods ending on or after 15 December 2016). These amendments are additional reporting requirements which are not contained in ISRE 2410.

The AUASB considers that this Auditing Standard conforms, to the extent described above, with International Standard ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the IAASB. The main differences between this Auditing Standard and ISRE 2410 are:

1. This Auditing Standard contains the following requirements that are not contained in ISRE 2410:
  - This Auditing Standard applies to:
    - ♦ a review, by the auditor of the entity, of a financial report for a half-year in accordance with the *Corporations Act 2001*; and
    - ♦ a review, by the auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose (Ref: Para. 1(a) and (b)).
  - Where in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:
    - ♦ if possible, perform appropriate alternative procedures; and
    - ♦ document in the working papers:
      - the circumstances surrounding the inability to comply;
      - the reasons for the inability to comply; and

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- justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report (Ref: Para. 7).

- The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
  - ◆ for the preparation and ~~fair~~ presentation of the financial report including where relevant their fair presentation;
  - ◆ for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
  - ◆ to provide the auditor with:
    - access to information relevant to the preparation of the financial report;
    - additional information that the auditor may request for the purposes of the review engagement; and
    - unrestricted access to persons from whom the auditor determines it necessary to obtain evidence (Ref: Para. 11).
- The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation (Ref: Para. 12).
- The auditor shall consider materiality, using professional judgement, when:
  - ◆ determining the nature, timing and extent of review procedures; and
  - ◆ evaluating the effect of misstatements (Ref: Para. 15).
- When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report (Ref: Para. 24~~2~~).
- If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation of the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate (Ref: Para. 24~~5~~).
- When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that indicates the existence of fraud or non-compliance with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the auditor shall:
  - ◆ communicate the matter unless prohibited by law or regulation, as soon as practicable to those charged with governance and shall consider the implications for the review
  - ◆ request management's assessment of the effect (s) on the financial report;

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- ◆ consider the effect on the auditor's conclusion and the review report; and
- ◆ determine whether law, regulation or relevant ethical requirements:
  - require the auditor to report to an appropriate authority outside the entity;
  - establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. (Ref: Para. 391).
- The following paragraphs contain requirements in relation to the auditor's review report and are in addition to those in ISRE 2410:
  - ◆ Paragraphs 33 to 389 relate to the content and order of the auditor's review report;
  - ◆ Paragraphs 3940, 401, 478 and 4850 relate to auditor's review reports which contain a modified review conclusion;
  - ◆ Paragraphs 5049 to 5251 relate to auditor's review reports with a going concern matter;
  - ◆ Paragraphs 53 and 54 relate to emphasis of matter and other matter paragraphs.
- 2. This Auditing Standard includes explanatory guidance not contained within ISRE 2410 on:
  - Materiality (Ref: Para. A14 to A18); and
  - Comparatives (Ref: Para. A28 to A31).
- 3. This Auditing Standard provides illustrative examples that differ in form and content from those contained in ISRE 2410, namely:
  - An engagement letter (Appendix 1).
  - A written representation letter (Appendix 1).
  - The auditor's unmodified review reports (Appendices 3 and 4).
  - The auditor's modified review reports (Appendix 4).
- 4. This Auditing Standard provides illustrative detailed procedures that may be performed in an engagement to review a financial report that are not contained in ISRE 2410 (Appendix 2).

Compliance with this Auditing Standard on Review Engagements enables compliance with ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* to the extent described above.

## AUDITING STANDARD ON REVIEW ENGAGEMENTS ASRE 2410

### *Review of a Financial Report Performed by the Independent Auditor of the Entity*

#### Application

1. This Auditing Standard on Review Engagements applies to:
  - (a) a review by the auditor of the entity, of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) a review, by the auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose.

#### Operative Date

2. This Auditing Standard on Review Engagements is operative for financial reporting periods commencing on or after 1 January-July 2020 with early adoption permitted.

**Commented [AW2]:** To be confirmed by the AUASB.

#### Introduction

##### Scope of this Auditing Standard on Review Engagements

3. This Auditing Standard on Review Engagements (Auditing Standard) deals with the auditor's responsibilities when an auditor undertakes an engagement to review a financial report of an audit client, and on the form and content of the auditor's review report. The term "auditor" is used throughout this Auditing Standard, not because the auditor is performing an audit function but because the scope of this Auditing Standard is limited to a review of a financial report performed by the auditor of the financial report of the entity.

#### Objective

4. The objective of the auditor is to plan and perform the review to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial report, or complete set of financial statements, is (are) not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A1-A3)

#### Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
  - (a) An interim financial report means a financial report that is prepared in accordance with an applicable financial reporting framework<sup>1</sup> for a period that is shorter than the entity's financial year.
  - (b) A financial report means a complete set of financial statements including the related notes and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report. For example, a

<sup>1</sup> See, for example, Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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financial report, as defined under section 303 of the *Corporations Act 2001* consists of financial statements for the half-year, notes to the financial statements and the directors' declaration about the statements and notes.

- (c) An applicable financial reporting framework means a financial reporting framework adopted by management, and where appropriate, those charged with governance, in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and;

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of a financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

## **Requirements**

### **Performing a Review**

6. The auditor who is engaged to perform a review of a financial report shall perform the review in accordance with this Auditing Standard. (Ref: Para. A4)
7. **Where** in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement in this Auditing Standard, the auditor shall:
- (a) if possible, perform appropriate alternative procedures; and
- (b) document in the working papers:
- (i) the circumstances surrounding the inability to comply;
- (ii) the reasons for the inability to comply; and
- (iii) justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the auditor's review report.

### **General Principles of a Review of a Financial Report**

8. The auditor shall comply with relevant ethical requirements relating to the audit of the annual financial report of the entity. (Ref: Para. A5)
9. The auditor shall implement quality control procedures that are applicable to the individual engagement. (Ref: Para. A6)

**Commented [AW3]:** Requirement not in NZ SRE 2410. An existing difference. Refer to BMSP

**Commented [AW4]:** Refer BMSP an existing difference to NZ SRE

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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10. The auditor shall plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial report to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A7)

**Agreeing the Terms of the Engagement** (Ref: Para. A8, ~~A55-A58~~ and ~~A57-A60~~)

*Preconditions for a Review*

11. The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from management and, where appropriate, those charged with governance, that it acknowledges and understands its responsibility:
- (a) for the preparation ~~and presentation~~ of the financial report ~~including where relevant their fair presentation~~;
  - (b) for such internal controls as management and, where appropriate, those charged with governance, deems necessary to enable the preparation of the financial report that is free from material misstatement; and
  - (c) to provide the auditor with:
    - (i) access to information relevant to the preparation of the financial report;
    - (ii) additional information that the auditor may request for the purposes of the review engagement; and
    - (iii) unrestricted access to persons from whom the auditor determines it necessary to obtain evidence.

**Commented [AW5]:** To incorporate fair presentation and compliance. Consistent with NZ SRE

*Agreement on Review Engagement Terms*

12. The auditor shall agree the terms of the engagement with the entity, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.

**Commented [AW6]:** NZ SRE uses TCWG – an existing difference

**Procedures for a Review of a Financial Report**

*Understanding the Entity and its Environment, Including its Internal Control*

13. The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports, sufficient to plan and conduct the engagement so as to be able to:
- (a) identify the types of potential material misstatements and consider the likelihood of their occurrence; and
  - (b) select the enquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework.  
(Ref: Para. A9-A12)
14. In order to plan and conduct a review of a financial report, a recently appointed auditor, who has not yet performed an audit of the annual financial report in accordance with Australian Auditing Standards, shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial reports. (Ref: Para. A13)

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**Materiality** (Ref: Para. A14-A18)

15. The auditor shall consider materiality, using professional judgement, when:

- (a) determining the nature, timing and extent of review procedures; and
- (b) evaluating the effect of misstatements.

**Enquiries, Analytical and Other Review Procedures**

16. The auditor shall make enquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework.  
(Ref: Para. A19-A23)

17. The auditor shall obtain evidence that the financial report agrees or reconciles with the underlying accounting records. (Ref: Para. A24)

18. The auditor shall enquire whether management has identified all events up to the date of the auditor's review report that may require adjustment to or disclosure in the financial report.  
(Ref: Para. A25)

19. The auditor shall enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as the result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:

- (a) enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
- (b) consider the adequacy of the disclosure about such matters in the financial report.  
(Ref: Para. A26)

~~20.~~ The auditor shall enquire of management and, where appropriate, those charged with governance, as to the existence of any actual or suspected non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. (Ref: Para. A20)

~~20-21.~~ When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial report to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall make additional enquiries or perform other procedures to enable the auditor to express a conclusion in the auditor's review report. (Ref: Para. A27)

**Comparatives – First Financial Report** (Ref: Para. A28-A31)

~~21-22.~~ When comparative information is included for the first time in a financial report, an auditor shall perform similar procedures on the comparative information as applied to the current period financial report.

**Evaluation of Misstatements** (Ref: Para. A32-A34)

~~22-23.~~ The auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the financial report.

**Commented [AW7]:** Added as agreed by the AUASB and in response to feedback on ED. Consistent with NZ SRE

### **Written Representations**

~~23-24.~~ The auditor shall endeavour to obtain written representations from management and, where appropriate, those charged with governance, that:

- (a) They acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
- (b) The financial report is prepared and presented in accordance with the applicable financial reporting framework;
- (c) They believe the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of such items is included in or attached to the written representations;
- (d) They have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
- (e) They have disclosed to the auditor the results of their assessment of the risk that the financial report may be materially misstated as a result of fraud;
- (f) They have disclosed to the auditor ~~all known actual identified~~ or suspected non-compliance with laws and regulations, the effects of which are to be considered when preparing the financial report; and
- (g) They have disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the auditor's review report that may require adjustment to or disclosure in the financial report. (Ref: Para. A35)

~~24-25.~~ If management and, where appropriate, those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation on the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate.

### **Auditor's Responsibility for Other Information**

~~25-26.~~ The auditor shall read the other information that accompanies the financial report to consider whether there is a material inconsistency with the financial report. (Ref: Para. A36)

~~26-27.~~ If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management, and where appropriate, those charged with governance. (Ref: Para. ~~A37~~A38)

### **Communication**

~~27-28.~~ When, as a result of performing a review of a financial report, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall communicate this matter as soon as practicable to the appropriate level of management.

~~28-29.~~ When, in the auditor's judgement, management does not respond appropriately within a reasonable period of time, the auditor shall inform those charged with governance. (Ref: Para. ~~A38~~A39)

~~29-30.~~ When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor shall consider:

**Commented [AW8]:** Based on feedback on ED and consistency of terminology

**Auditing Standard on Review Engagements ASRE 2410**  
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- (a) Whether to modify the auditor's review report; or
- (b) The possibility of withdrawing from the engagement; and
- (c) The possibility of resigning from the appointment to audit the annual financial report.  
 (Ref: ~~Para. A376.1~~ and ~~A57A60~~)

~~30-31.~~ When, as a result of performing the review of a financial report, a matter comes to the auditor's attention that indicates the existence of fraud or non-compliance with laws and regulations, or suspected fraud or non-compliance with laws and regulations, ~~has occurred in the entity~~, the auditor shall:

- (a) Communicate the matter unless prohibited by law or regulation, as soon as practicable to ~~management and where appropriate those charged with governance; and shall consider the implications for the review.~~
- (b) Request management's assessment of the effect (s) on the financial report;
- (c) Consider the effect on the auditor's conclusion and the ~~auditor's~~ review report; and
- (d) Determine whether law, regulation or relevant ethical requirements:
  - (i) require the auditor to report to an appropriate authority outside the entity;
  - (ii) establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. (Ref: Para. ~~A38-A39 – A40A41~~)

~~31-32.~~ The auditor shall communicate relevant matters of governance interest arising from the review of the financial report to those charged with governance. (Ref: Para. ~~A40-A42~~ and ~~A58A63~~)

**Reporting the Nature, Extent and Results of the Review of a Financial Report**

~~32-33.~~ The auditor shall issue a written report that contains the following:

- (a) An appropriate title clearly identifying it as an ~~auditor's~~ review report of the independent auditor of the entity.
- (b) An addressee, as required by the circumstances of the engagement.

~~33-34.~~ The first section of the auditor's review report shall include the auditor's conclusion, and shall have the heading "Conclusion". The Conclusion section of the ~~auditor's review~~ report shall:

- (a) Identify the entity whose financial report has been reviewed;
- (b) State that the financial report has been reviewed;
- (c) Identify the title of each ~~statement comprising contained in the financial report; and the date and period covered by the financial report;~~
- (d) Refer to the notes, ~~comprising including a summary of~~ significant accounting policies and other explanatory information; ~~and~~
- (e) ~~Specify the date or, or the period covered by, each statement comprising the financial report; and;~~

**Commented [AW9]:** Consistent with ASA 250 to use both terms. NZ SRE use TCWG which is an existing difference

**Commented [SWE10]:** Removed as covered by paragraph c. Consistent with NZ SRE.

**Commented [AW11]:** Repetitive. Consistent with NZ SRE

**Commented [AW12]:** ED 01/19 was based on AASB 101.10. Respondent commented this was not consistent with ASA 700.24 which requires "a summary of significant accounting policies. ATG have changed this requirement is to achieve consistency with AASB 134 which includes "a summary of significant accounting policies and other explanatory notes".

NZ SRE's requirement doesn't include "and other explanatory information" however this is in their illustrative examples of review reports.

**Commented [AW13]:** Removed from above for consistency with NZ SRE

<sup>2</sup> Refer AASB 134 *Interim Financial Reporting*. Relevant for a complete set of financial statements, if a condensed set use the term relevant.

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(e)(f) Include a conclusion:

- (i) When expressing an unmodified conclusion on a half-year financial report prepared in accordance with the *Corporations Act 2001*, the ~~auditor's review~~ report shall include a conclusion as to whether the auditor ~~has~~ become aware of any matter that makes the auditor believe that the ~~half-year~~ financial report does not comply with the *Corporations Act 2001*, including giving a true and fair view of the financial position and its performance, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulation 2001*<sup>3</sup>.
- (ii) When expressing an unmodified conclusion on a financial report prepared ~~using in accordance with~~ a fair presentation framework, the ~~auditor's review~~ report shall include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report does not present fairly, in all material respects, or if applicable is not true and fair, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used).
- (iii) When expressing an unmodified conclusion on a financial report prepared ~~using in accordance with~~ a compliance framework, the ~~auditor's review~~ report shall include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial report has not been prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when Australia is not the origin of the financial reporting framework used). (Ref ~~A41-A43~~ and ~~A41-A44~~)

~~34-35.~~ The report shall include a section directly following the Conclusion section, with the heading "Basis for Conclusion", that

- (a) States that the review of the financial report was conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*;
- (b) Refers to the section of the auditor's review report that describes the auditor's responsibilities; and
- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia.

~~35.~~ The ~~auditor's~~ report shall include a section with a heading "Responsibilities of Management for the Financial Report". The ~~auditor's review~~ report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions, ~~and~~ the appropriate reference may be to those charged with governance. ~~This section of the report shall describe the responsibilities of management for:~~

36. ~~The~~ ~~the~~ preparation of the financial report in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to

<sup>3</sup> See *Corporation Act 2001* section 309 (4)

**Commented [AW14]:** Refer BMSP - Existing difference between ASRE and NZ SRE. NZ SRE includes an additional paragraph

Includes a statement as to the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity or any of its subsidiaries.

**Commented [AW15]:** NZ SRE uses TCWG. Management consistent with ASA 700. Recommend retain management

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enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error; ~~and~~

~~(a) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern.~~

**Commented [AW16]:** Deleted as agreed with the AUASB

37. When the financial report is prepared in accordance with a fair presentation framework, the description of responsibilities of management for the financial report in the auditor's review report shall refer to "the preparation and fair presentation of this financial report" or "the preparation of the financial report that gives a true and fair view", as appropriate in the circumstances.

38. The report shall include a section with a heading "Auditor's Responsibilities for the Review of the Financial Report". This section of the report shall ~~state~~:

**Commented [AW17]:** For consistency with NZ ISRE

(a) State that the auditor is responsible for expressing a conclusion on the financial report based on the review;

(b) State that a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures; and

(c) State that a review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit, and that accordingly no audit opinion is expressed; ~~and~~

~~(d) the auditor makes enquiries about whether management have changed their assessment of the entity's ability to continue as a going concern. When, as a result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:~~

**Commented [AW18]:** As agreed with AUASB

~~(i) enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and~~

~~(ii) consider the adequacy of the disclosures about such matters in the financial report.~~

39. The report shall include:

(a) The date the auditor signs the auditor's review report;

(b) The location in the country or jurisdiction where the auditor practices;

(c) The name of the engagement partner where required by law or regulation<sup>4</sup>; and

~~(d)~~ The auditor's signature.

(d)

<sup>4</sup> Consistent with ASA 700 paragraph 46, under the *Corporations Act 2001* the auditor of a company or registered scheme is required to sign the ~~auditor's~~ review report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

#### **Modified Conclusion**

The auditor shall modify the conclusion in the auditor's review report when:

The auditor concludes, based on the procedures performed, that a matter has come to their attention that causes them to believe that the financial report as a whole is not free from material misstatement; or

The auditor is unable to obtain sufficient appropriate evidence to conclude that the financial report as a whole is free from material misstatement.

Refer to ASA 705 Modifications to the Opinion in the Independent Auditor's Report and ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity for wording to use when issuing a modified conclusion.

When the auditor modifies the conclusion, the auditor shall:

Use headings "Qualified Conclusion", "Adverse Conclusion" or "Disclaimer of Conclusion", as appropriate, for the Conclusion section required by paragraph 33 in the auditor's review report; and

Amend the heading "Basis for Conclusion" required by paragraph 34 to "Basis for Qualified Conclusion", "Basis for Adverse Conclusion" or "Basis for Disclaimer of Conclusion", as appropriate. Within this section provide a description of the matters giving rise to the modification.

#### **Departure from the Applicable Financial Reporting Framework**

40. The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall amend ~~include in the heading "Basis for Conclusion" to "Basis for Qualified Conclusion" or "Basis for Adverse Conclusion" and describe the section of the report, a description of the~~ nature of the departure and, if practicable, states ~~the~~ effects 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 shall be included in the Basis for Qualified Conclusion or Basis for Adverse Conclusion section of the report. The conclusion paragraph shall be headed "Qualified Conclusion" or "Adverse Conclusion" whichever is relevant. ~~basis for modification paragraph.~~ (Ref: Para. A42A45)

41. When the effect of the departure is so material and pervasive to the financial report that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the financial report, the auditor shall express an adverse conclusion. (Ref: Para. A43A46)

#### **Limitation on Scope** (Ref: Para. A44A47)

42. When the auditor is unable to complete the review, the auditor shall communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a review report.

#### **Limitation on Scope Imposed by Management**

43. Unless required by law or regulation, an auditor shall not accept an engagement to review a financial report when management has imposed a limitation on the scope of the auditor's review. (Ref: Para. A45A48)

**Commented [AW19]:** Section removed as felt was repetitive. Incorporated into the following paragraphs.

**Commented [AW20]:** This has been amended as we are removing the paragraphs above.

Consistent with NZ SRE

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44. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. (Ref: Para. [A46A49](#))
45. If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed. (Ref: Para [A47A50](#))
46. When the auditor disclaims a conclusion on the financial report, the auditor shall not include the elements required by paragraph [34-35 \(ab\)](#).
47. When the auditor disclaims a conclusion on the financial report, the auditor shall amend the description of the auditor's responsibilities required by paragraph [37-38](#) to include only:
- (a) A statement that the auditor's responsibility is to conduct a review of the entity's financial report in accordance with [ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity](#)~~this Auditing Standard~~; and
  - (b) A statement that, [however](#), because of the matter(s) described in the Basis for Disclaimer of Conclusion section, the auditor was not able to obtain sufficient evidence to provide a [basis](#) ~~for a~~ review conclusion on the financial report.
  - (c) The statement about auditor independence and other ethical responsibilities required by paragraph [34\(c\)](#).

**Commented [AW21]:** Correct drafting to include the required statement. Consistent with NZ ISRE

**Commented [AW22]:** Consistent with NZ ISRE

**Other Limitations on Scope Not Imposed by Management** (Ref: Para. [A48A51-A49A52](#))

48. The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial report, and when the auditor concludes that an unqualified conclusion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. [The conclusion paragraph shall be headed "Qualified Conclusion"](#).

**Going Concern and a Material Uncertainty Exists** (Ref: Para. [A50A53-A52A54](#))

*Use of going concern basis of accounting is appropriate* ~~but a material uncertainty exists~~

**Commented [AW23]:** Title changed to not infer a requirement to conclude on whether a MURGC exists.

Note this has change has not been considered by the NZAuASB

49. If adequate disclosure about the material uncertainty is made in the financial report, the auditor shall express an unmodified review conclusion and the auditor's review report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to highlight a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. This section shall:
- (a) Draw attention to the note in the financial report that discloses the matter;
  - (b) State that the events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's conclusion is not modified in respect of the matter.
50. If a material uncertainty that casts significant doubt on the entity's ability to continue as a going concern is not adequately disclosed in the financial report, the auditor shall:
- (a) Express a qualified or adverse conclusion, as appropriate; and

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- (b) In the Basis for Qualified or Adverse Conclusion section of the auditor's review report, state that a -material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial report does not adequately disclose this matter.

*Use of going concern basis of accounting is inappropriate*

51. If the financial report has been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial report is inappropriate, the auditor shall express an adverse conclusion.

**Emphasis of Matter ~~and Other Matter~~ Paragraphs (Ref: A56 and A57)**

52. The auditor shall consider ~~including~~~~adding~~ an Emphasis of Matter paragraph ~~in the auditor's review report~~ to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
53. When the auditor includes an Emphasis of Matter paragraph in the auditor's review report the auditor shall:
- (a) Include the paragraph within a separate section of the auditor's review report with an appropriate heading that includes the term "Emphasis of Matter";
- (b) Include a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial report. The paragraph shall refer only to information presented or disclosed ~~in~~~~on~~ the financial report; and
- (c) Indicate that the auditor's review conclusion is not modified in respect of the matter emphasised.

**Other Matter Paragraph**

54. The auditor shall consider ~~including~~~~adding~~ an Other Matter paragraph in the auditor's review report to communicate a matter other than those that are presented or disclosed in the financial report, that in the auditor's judgement is relevant to users' understanding of the review, the auditor's responsibilities, or the auditor's review report, if not prohibited by law or regulation. When including an Other Matter paragraph in the auditor's review report, the auditor shall include a separate section with the heading "Other Matter", or other appropriate heading.

**Documentation (Ref: Para. ~~A60~~A64)**

55. The auditor shall prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion, and to provide evidence that the review was performed in accordance with this Auditing Standard and applicable legal and regulatory requirements.

\* \* \*

## **Application and Other Explanatory Material**

### **Objective** (Ref: Para. 4)

- A1. Under paragraph 13, the auditor needs to make enquiries, and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the financial report is materially misstated.
- A2. The objective of a review of a financial report differs significantly from that of an audit conducted in accordance with Australian Auditing Standards. A review of a financial report does not provide a basis for expressing an opinion whether the financial report gives a true and fair view, or is presented fairly, or has not been prepared, in all material respects, in accordance with the applicable financial reporting framework.
- A3. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the financial report to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

**Commented [AW24]:** To incorporate compliance framework.

### **Performing a Review** (Ref: Para 6)

- A4. Through performing the audit of the annual financial report, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the financial report, under paragraph 13, the auditor needs to update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. A practitioner who is engaged to perform a review of a financial report, and who is not the auditor of the entity, does not perform the review in accordance with ASRE 2410<sup>4</sup>, as the practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity.

Although other Auditing Standards do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this Auditing Standard.

### **General Principles of a Review of a Financial Report**

- A5. Relevant ethical requirements<sup>5</sup> govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour, and technical standards. (Ref: Para. 8)
- A6. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring. ASQC 1 and ASA 220<sup>6</sup> include guidance that may be helpful. (Ref: Para. 9)
- A7. An attitude of professional scepticism denotes that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that

**Commented [AW25]:** Changed for consistency with ASA 102

<sup>4</sup> See ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.

<sup>5</sup> See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

<sup>6</sup> See ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

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contradicts or brings into question the reliability of documents or representations by management of the entity. ASA 200 includes guidance which may be helpful.\* (Ref: Para. 10)

**Agreeing the Terms of the Engagement**

A8. Written agreement of the terms of the engagement helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, the responsibilities of management and, where appropriate, those charged with governance, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:

- (a) the objective of a review of a financial report;
- (b) the scope of the review;
- (c) the responsibilities of management and, where appropriate, those charged with governance for:
  - (i) the preparation of the financial report in accordance with the applicable financial reporting framework including where relevant their fair presentation;
  - (ii) establishing and maintaining effective internal control relevant to the preparation of the financial report; and
  - (iii) making all financial records and related information available to the auditor;
- (d) agreement from management and, where appropriate, those charged with governance:
  - (i) to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records; and
  - (ii) that where any document containing the financial report indicates that the financial report has been reviewed by the entity's auditor, the auditor's review report also will be included in the document; and
- (e) the anticipated form and content of the report to be issued, including the identity of the addressee of the report.

An illustrative engagement letter is set out in Appendix 1. The terms of engagement to review a financial report can also be combined with the terms of engagement to audit the annual financial report. ASA 210 includes guidance which may be helpful.\* (Ref: Para. 12)

**Procedures for a Review of a Financial Report**

Understanding the Entity and its Environment, Including its Internal Control

A9. Under ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*,<sup>22a</sup> the auditor who has audited the entity's financial report for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial report, that was sufficient to conduct the audit. In planning a review of a financial report, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of internal control as it relates to the preparation of the financial

<sup>22a</sup> See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

<sup>22a</sup> See ASA 210 *Agreeing the Terms of Audit Engagements*.

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report subject to review, as it may differ from internal control as it relates to the preparation of the annual financial report. (Ref: Para. 13)

- A10. The auditor needs to use the understanding of the entity and its environment, including its internal control, to determine the enquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which enquiries may be directed or analytical or other review procedures applied. (Ref: Para. 13)
- A11. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:
- (a) reading the documentation, to the extent necessary, of the preceding year's audit, reviews of prior period(s) of the current year, and corresponding period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period financial report;
  - (b) considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial report;
  - (c) reading the most recent annual and comparable prior period financial report;
  - (d) considering materiality with reference to the applicable financial reporting framework as it relates to the financial report, to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements;
  - (e) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial report;
  - (f) considering significant financial accounting and reporting matters that may be of continuing significance, such as material weaknesses in internal control;
  - (g) considering the results of any audit procedures performed with respect to the current year's financial report;
  - (h) considering the results of any internal audit performed and the subsequent actions taken by management;
  - (i) enquiring of management about the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud;
  - (j) enquiring of management about the effect of changes in the entity's business activities;
  - (k) enquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of the financial report; and
  - (l) enquiring of management of the process by which the financial report has been prepared and the reliability of the underlying accounting records to which the financial report is agreed or reconciled. (Ref: Para. 13)
- A12. The auditor needs to determine the nature of the review procedures, if any, to be performed for components and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the financial ~~information of the component report components~~, and the auditor's understanding of the extent to which internal control over the preparation of such ~~financial information reports~~ is centralised or decentralised. (Ref: Para. 13)
- A13. Obtaining an understanding of the entity and its environment enables the auditor to focus the enquiries made, and the analytical and other review procedures applied in performing a review

**Commented [AW26]:** Amended as a result of comment by Deloitte. Consistent with NZAuASB.

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of the financial report in accordance with this Auditing Standard. As part of obtaining this understanding, ordinarily the auditor makes enquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit and for any prior periods in the current year that have been reviewed by the predecessor auditor. In doing so, ordinarily the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control. (Ref: Para. 14)

**Materiality** (Ref: Para. 15)

- A14. The auditor needs to use professional judgement and consider qualitative and quantitative factors in determining materiality.
- A15. Ordinarily, the auditor's consideration of materiality for a review of a financial report is based on the period financial data and accordingly, materiality based on interim period financial data may be less than materiality for annual financial data. If the entity's business is subject to cyclical variations or if the financial results for the current period show an exceptional decrease or increase compared to prior periods and expected results for the current year, the auditor may, for example, conclude that materiality is more appropriately determined using a normalised figure for the period.
- A16. The auditor's consideration of materiality, in evaluating the effects of misstatements, is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial report.
- A17. If the applicable financial reporting framework contains a definition of materiality, it will ordinarily provide a frame of reference to the auditor when determining materiality for planning and performing the review.
- A18. The auditor needs, when relevant, to consider materiality from the perspective of both the entity and the consolidated entity.

**Enquiries, Analytical and Other Review Procedures**

- A19. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of a financial report ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial report. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial report, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 16)
- A20. The auditor ordinarily performs the following procedures:
- (a) Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquiring about matters dealt with at meetings for which minutes are not available that may affect the financial report.
  - (b) Considering the effect, if any, of matters giving rise to a modification of the audit or auditor's review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
  - (c) Communicating, where appropriate, with other auditors who are performing a review of the financial report of the entity's significant components.

- (d) Enquiring of members of management responsible for financial and accounting matters, and others as appropriate, about the following:
- (i) whether the financial report has been prepared and presented in accordance with the applicable financial reporting framework;
  - (ii) whether there have been any changes in accounting principles or in the methods of applying them;
  - (iii) whether any new transactions have necessitated the application of a new accounting principle;
  - (iv) whether the financial report contains any known uncorrected misstatements;
  - (v) unusual or complex situations that may have affected the financial report, such as a business combination or disposal of a segment of the business;
  - (vi) significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity;
  - (vii) whether related party transactions have been appropriately accounted for and disclosed in the financial report;
  - (viii) significant changes in commitments and contractual obligations;
  - (ix) significant changes in contingent assets and contingent liabilities including litigation or claims;
  - (x) compliance with debt covenants;
  - (xi) matters about which questions have arisen in the course of applying the review procedures;
  - (xii) significant transactions occurring in the last several days of the period or the first several days of the next period;
  - (xiii) knowledge of any fraud or suspected fraud affecting the entity involving:
    - management;
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial report; and
  - (xiv) knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial information communicated by employees, former employees, analysts, regulators or others; and
  - (xv) knowledge of any actual or suspected non-compliance with laws and regulations that could have a material effect on the financial report. If the auditor becomes aware of any actual or suspected non-compliance with laws and regulations ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* provides guidance.
- (e) Applying analytical procedures to the financial report designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the financial report. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and

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may be performed manually or with the use of computer-assisted auditing techniques. Appendix 2 to this Auditing Standard contains examples of analytical procedures the auditor may consider when performing a review of a financial report.

- (f) Reading the financial report and considering whether anything has come to the auditor's attention that causes the auditor to believe that the financial report is not in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A21. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the financial report. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the period. Performing some of the review procedures earlier in the period also permits early identification and consideration of significant accounting matters affecting the financial report. (Ref: Para. 16)
- A22. The auditor performing a review of the financial report is also the auditor of the annual financial report of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of the financial report. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the financial report may also be used for the annual audit. The auditor may decide also to perform, at the time of the review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial report, for example, performing auditing procedures on:
  - (a) significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions, or
  - (b) opening balances (when applicable). (Ref: Para. 16)
- A23. A review of a financial report ordinarily does not require corroborating the enquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an enquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims, or alternative procedures, may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the financial report is in accordance with the applicable financial reporting framework. (Ref: Para. 16)
- A24. The auditor may obtain evidence that the financial report agrees or reconciles with the underlying accounting records by tracing the financial report to:
  - (a) the accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
  - (b) other supporting data in the entity's records as necessary. (Ref: Para. 17)
- A25. The auditor need not perform procedures to identify events occurring after the date of the auditor's review report. (Ref: Para. 18)
- A26. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial report, or may be identified as a result of enquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor needs to enquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor needs to enquire also as to the feasibility of the plans of those charged with governance and whether they believe that the outcome of these plans will improve the situation. Ordinarily, the auditor considers, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation. (Ref: Para. 19)

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- A27. For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract. (Ref: Para. [2021](#))

**Comparatives – First Financial Report** (Ref: Para. [2122](#))

- A28. When comparative information is included in the first financial report and the auditor is unable to obtain sufficient appropriate review evidence to achieve the review objective, a limitation on the scope of the review exists and the auditor needs to modify the auditor's review report. Ordinarily, a restriction on the scope of the auditor's work will result in a qualified ("except for") conclusion. In such cases, ordinarily an auditor encourages clear disclosure in the financial report, that the auditor has been unable to review the comparatives.
- A29. When comparative information is included in the first financial report and the auditor believes a material adjustment should be made to the financial report, under paragraph 39, the auditor needs to modify the auditor's review report.
- A30. When an entity has come into existence only within the first financial reporting period, comparative information will not be provided in the first financial report and no modified auditor's review report is required.
- A31. Accounting Standard AASB 101 *Presentation of Financial Statements* provides requirements and explanatory guidance relating to comparative information included in a financial report prepared in accordance with Australian Accounting Standards. Accounting Standard AASB 1 *First-time Adoption of Australian Accounting Standards* provides requirements and guidance relating to comparative information when an entity adopts Australian Accounting Standards for the first time.

**Evaluation of Misstatements** (Ref: Para. [2223](#))

- A32. A review of a financial report, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the financial report is free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the financial report for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
- A33. The auditor needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the auditor considers matters such as the nature, cause and amount of the misstatements, whether the misstatements originated in the preceding year or current year, and the potential effect of the misstatements on future interim or annual periods.
- A34. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the financial report. In so doing, under paragraph 15, the auditor needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the financial report.

**Written Representations**

- A35. The auditor needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. An illustrative representation letter is set out in Appendix 1. (Ref: Para. [2324](#))

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**Auditor's Responsibility for Other Information**

A36. ~~An auditor~~**Auditors** conducting review engagement under this auditing standard ~~is~~**are** not required to comply with ASA 720\*, however ASA 720 includes guidance which may be useful. ASA 720 requires ~~the auditor~~**auditors** to read the other information that accompanies the financial report to consider whether there is a material inconsistency with the financial report. If the auditor identifies a material inconsistency, the auditor needs to consider whether the financial report or the other information needs to be amended. If an amendment is necessary in the financial report and those charged with governance refuse to make the amendment, the auditor needs to consider the implications for the auditor's review report. If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may consider including an Other Information paragraph in the auditor's review report and ~~described~~**describes** the material misstatement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the financial report, and such alternative measures are given excessive prominence, or are not clearly defined, or not clearly reconciled to the financial report such that they are confusing and potentially misleading. (Ref: Para. ~~25~~**26**)

~~A37. Aus A36.0—~~**For a review of a half-year financial report under the Corporations Act 2001 (Act), withholding the issuance of the auditor's review report and/or withdrawing from the review engagement are not options available under the Act. (Ref: Para. ~~30~~)**

A38. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (that is, information, not related to matters appearing in the financial report, that is incorrectly stated or presented). When discussing the matter with the entity's management, ordinarily the auditor considers the validity of the other information and management's responses to the auditor's enquiries, whether valid differences of judgement or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the auditor considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, obtaining legal advice, **and considering the implications for the auditor's review report.** ASA 720\* includes guidance which may be beneficial. (Ref: Para. ~~26~~**27**)

~~A37.—~~

**Communication**

~~A38.~~**A39.** Communications with management and/or those charged with governance are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, under paragraph ~~55~~**44**, the auditor needs to document the communication. (Ref: Para. 28 ~~and~~ **31**)

A40. The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management. **Refer to ASA 250 for further guidance which may be helpful.** (Ref: Para. ~~30~~**31**)

A41. **Law or regulation may restrict the auditor's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example,**

**Commented [AW27]:** Error in extant. ASRE 2410 doesn't have AU paragraphs

**Commented [AW28]:** Added to respond to comments on NOCLAR communications. Includes reference to ASA250. Consistent with NZ SRE

\* See ASA 720 The Auditor's Responsibilities Relating to Other Information.

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when the auditor is required to report identified or suspected non-compliance with laws and regulation to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice. ASA 250 includes guidance which may be helpful, including where there may be additional communication required.<sup>7</sup> (Ref: Para. 31)

~~A39.~~—

~~A40.~~~~A42.~~ As a result of performing a review of a financial report, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. (Ref: Para. ~~34~~~~32~~)

**Reporting the Nature, Extent and Results of the Review of a Financial Report** (Ref: Para. ~~32~~~~33~~~~34~~)

~~A41.~~~~A43.~~ ~~A41A.~~ Appendix 4 contains illustrations of the auditor's review reports incorporating the elements in paragraphs ~~32-33~~ to ~~49~~~~50~~. With the exception of the Conclusion and Basis for Conclusion sections, this Auditing Standard does not establish requirements for ordering the elements of the auditor's review report. ~~However,~~ This Auditing Standard requires the use of specific headings, which are intended to assist in making reports more consistent and recognisable. Also refer to A55 and A56 for guidance on the ordering of the review report.

~~A42.~~~~A44.~~ Paragraph ~~34~~ (ef) includes the conclusion required for reviews of financial reports conducted in accordance with the *Corporations Act 2001*, other financial reports prepared under a fair presentation framework and a compliance framework. In some cases, law or regulation governing the review of a financial report may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph ~~33~~~~34~~(ef). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this Auditing Standard for coming to the conclusion remain the same. ASA 700 includes guidance which may be helpful.<sup>8</sup> Illustrative auditor's review reports are set out in Appendices 3 and 4.

**Departure from the Applicable Financial Reporting Framework** (Ref: Para. ~~44~~~~40~~~~42~~~~41~~)

~~A43.~~~~A45.~~ If matters have come to the auditor's attention that cause the auditor to believe that the financial report is or may be materially affected by a departure from the applicable financial reporting framework, and those charged with governance do not correct the financial report, the auditor needs to modify the auditor's review report. If the information that the auditor believes is necessary for adequate disclosure is not included in the financial report, the auditor needs to modify the auditor's review report and, if practicable, include the necessary information in the auditor's review report. Refer to ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* for guidance as to appropriate wording to use when issuing a modified conclusion. ~~Also~~ Illustrative auditor's review reports with a qualified conclusion are set out in Appendix 4.

~~A44.~~~~A46.~~ Departures from the applicable financial reporting framework, may result in an adverse conclusion. An illustrative auditor's review report with an adverse conclusion is set out in Appendix 4.

**Limitation on Scope** (Ref: Para. ~~43~~~~42~~)

~~A45.~~~~A47.~~ Ordinarily, a limitation on scope prevents the auditor from completing the review.

<sup>7</sup> See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

<sup>8</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

**Commented [AW29]:** Added as a result of feedback from two respondents to include guidance on the order of the review report.

**Commented [AW30]:** Moved from requirements para 40 as helpful guidance.

### **Limitation on Scope Imposed by Management**

**A46-A48.** The auditor needs to refuse to accept an engagement to review a financial report if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity. (Ref: Para. 4443)

**A47-A49.** If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor needs to request the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor needs to communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework, under paragraphs 27, 28 and 30, the auditor needs to communicate such matters to the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. 454)

**A48-A50.** The auditor needs to consider the legal and regulatory requirements, including whether there is a legal requirement for the auditor to issue a report. If there is such a requirement, the auditor needs to disclaim a conclusion and provide in the auditor's review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial report is necessary for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework the auditor needs to communicate such a matter in the report. (Ref: Para. 465)

### **Other Limitations on Scope Not Imposed by Management** (Ref: Para. 498)

**A49-A51.** A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management or those charged with governance. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion, and is guided by paragraphs 39 and 49. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the financial report. In such circumstances, the auditor needs to modify the auditor's review report by indicating that, except for the effects of the matter which is described in the Basis for Qualified Conclusion ~~section of paragraph to~~ the auditor's review report, and the review was conducted in accordance with *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity* ~~this Auditing Standard~~. Illustrative auditor's review reports with a qualified conclusion are set out in Appendix 4.

**A50-A52.** The auditor may have expressed a qualified opinion on the audit of the latest annual financial report because of a limitation on the scope of that audit. The auditor needs to consider whether that limitation on scope still exists and, if so, the implications for the auditor's review report.

### **Going Concern and a Material Uncertainty Exists** (Ref: Para. 5049 and 5150)

**A51-A53.** The auditor may have alerted users to the existence of a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern by adding ~~a separate section under the heading Material Uncertainty Related to Going Concern~~ ~~an emphasis of matter paragraph~~ to a prior audit or auditor's review report. If the material uncertainty still exists and adequate disclosure is made in the financial report, the auditor needs to continue to alert users by adding a "Material Uncertainty Related to Going Concern" section to the auditor's review report to highlight the continued material uncertainty.

**A54.** If, as a result of enquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that casts significant doubt on the entity's

**Commented [AW31]:**

**Commented [AW32R31]:** Reflecting change from EOM to MURGC

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ability to continue as a going concern, and adequate disclosure is made in the financial report, the auditor ~~needs to alert~~ users by adding a “Material Uncertainty Related to Going Concern” section to the auditor’s review report.

A55. A Material Uncertainty Related to Going Concern section is preferably included after the Basis for Conclusion paragraph. ASA 570 *Going Concern* provides information that the auditor may find helpful in considering going concern in the context of the review engagement.

**Commented [AW33]:** Added to provide guidance on order of review report

**Emphasis of Matter Paragraphs**

A56. Ordinarily, a significant uncertainty in relation to any other matter, the resolution of which may materially affect the financial report, would warrant an emphasis of matter paragraph in the auditor’s review report. An emphasis of matter paragraph is preferably included after the Basis for Conclusion paragraph, or after the Material Uncertainty Related to Going Concern section if relevant.

**Commented [AW34]:** From extant ASRE 2410 was removed in ED. Added back for compliance with ISRE and for application for EOM other than going concern

A52-A57. ~~The auditor’s review report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the assurance practitioner’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose.~~

**Commented [AW35]:** Commented on by a respondent. Added as considered helpful.

**Other Considerations**

A53-A58. The terms of the engagement include agreement by those charged with governance that, where any document containing a financial report indicates that the financial report has been reviewed by the entity’s auditor, the auditor’s review report will be also included in the document. If those charged with governance have not included the auditor’s review report in the document, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances. (Ref: Para. 12)

A54-A59. If the auditor has issued a modified auditor’s review report and those charged with governance issue the financial report without including the modified auditor’s review report in the document containing the financial report, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial report.

**Considerations Specific to Public Sector Entities**

A55-A60. ~~The auditor needs to communicate agree with the client the terms of engagement to the entity subject to the review.~~ When communicating agreeing the terms of engagement, an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, management’s responsibilities, the extent of the auditor’s responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Nevertheless, an engagement letter setting out the matters referred to in paragraph A8 may be useful to both the public sector auditor and the client. Public sector auditors, therefore, consider agreeing with the client the terms of a review engagement by way of an engagement letter. (Ref: Para. 12)

A56-A61. In the public sector, the auditor’s statutory audit obligation may extend to other work, such as a review of interim financial information.

A57-A62. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept, or to withdraw from a review engagement. The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial report. (Ref: Para. 2930(b)-2930(c) and 3637)

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**A58-A63.** The auditor needs to communicate to those charged with governance and consider the implications for the review when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or **actual or suspected** non-compliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities.  
(Ref: Para. **3432**)

**Documentation** (Ref: Para. **4455**)

**A59-A64.** The auditor needs to prepare documentation that enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the enquiries made and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

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## **Appendix 1**

(Ref: Para. A8)

### **EXAMPLE OF AN ENGAGEMENT LETTER FOR A REVIEW OF A FINANCIAL REPORT**

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*.

To [those charged with governance:<sup>9</sup>]

#### **Scope**

You have requested that we review the half-year financial report<sup>10</sup> of [name of entity], which comprises the statement of financial position as at 31 December 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month<sup>11</sup> period ended on that date, and notes comprising significant accounting policies and other explanatory information and the directors' declaration. We are pleased to confirm our acceptance and our understanding of the terms and objectives of our engagement by means of this letter.

Our review will be conducted in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* with the objective of providing us with a basis for reporting whether we have become aware of any matter that makes us believe that the half-year financial report does not comply with the *Corporations Act 2001*, including giving a true and fair view of the financial position and its performance, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulation 2001*.<sup>12</sup> Such a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of a financial report is substantially less than the scope of an audit conducted in accordance with Auditing Standards whose objective is the expression of an opinion regarding the financial report and accordingly, we shall express no such opinion. ASRE 2410 requires us to also comply with the ethical requirements relevant to the audit of the annual financial report of the entity.

We expect to report on the half-year financial report<sup>13</sup> as follows:

[Include text of sample auditor's review report - see Appendix 3 or 4 as appropriate.]

The directors [those charged with governance<sup>14</sup>] of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error. As part of our review, we shall request written representations from management concerning assertions made in connection with the review. We shall also request that where any document containing the half-year financial report indicates that the half-year financial report has been reviewed, our review report will also be included in the document.

<sup>9</sup> Insert the appropriate term, such as "Directors" or "Board of Management".

<sup>10</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>11</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>12</sup> Amend as appropriate - refer paragraph 33-34 (e)

<sup>13</sup> If the term "half-year financial report" is not appropriate, then this term should be changed to reflect the report being reviewed.

<sup>14</sup> Insert the appropriate term, such as "Directors or Board of Management".

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The directors [those charged with governance] of the [company/registered scheme/disclosing entity] acknowledge and understand they have responsibility to provide us with:

- (i) access to information relevant to the preparation of the half-year financial report;
- (ii) additional information that we may request for the purposes of the review engagement; and
- (iii) unrestricted access to persons from whom we determine it is necessary to obtain evidence.

A review of the half-year financial report does not provide assurance that we shall become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we shall inform you of any material matters that come to our attention.

**Independence**

We confirm that, to the best of our knowledge and belief, we currently meet the independence requirements of the *Corporations Act 2001* and the Accounting Professional and Ethics Standard Board APES 110 *Code of Ethics for Professional Accountants* (*including International Independence Standards*) (The Code) in relation to the review of the half-year financial report. In conducting our review of the half-year financial report, should we become aware that we have contravened the independence requirements of the *Corporations Act 2001*, we shall notify you on a timely basis. As part of our review process, we shall also provide you with a written independence declaration as required by the *Corporations Act 2001*.

The *Corporations Act 2001* includes specific restrictions on the employment relationships that can exist between the reviewed entity and its auditors. To assist us in meeting the independence requirements of the *Corporations Act 2001*, and to the extent permitted by law and regulation, we request you discuss with us:

- The provision of services offered to you by [insert firm name] prior to engaging or accepting the service; and
- The prospective employment opportunities of any current or former partner or professional employee of [insert firm name] prior to the commencement of formal employment discussions with the current or former partner or professional employee.

**Presentation of the reviewed half-year financial report in electronic format**

It is our understanding that [the entity] intends to publish a hard copy of the reviewed half-year financial report and the auditor's review report for members, and to electronically present the reviewed half-year financial report and the auditor's review report on its internet web site. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by [the entity] to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of reviewed financial information on the entity's web site is beyond the scope of the review of the half-year financial report. Responsibility for the electronic presentation of the half-year financial report on the entity's web site is that of the [governing body of the entity].

**Fees**

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

**Commented [AW36]:** Not in NZAuASB's example letter. This is an existing difference. This has been agreed to ASA 210 example letter

**Commented [AW37]:** Not in NZAuASB's example letter. An existing difference. This has been agreed to ASA 210 example letter.

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[This letter will be effective for future years unless it is terminated, amended or superseded.<sup>15</sup>]

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 review of the half-year financial report.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [entity] by

(signed)

.....

Name and Title

Date

---

<sup>15</sup> Use if applicable.

## **EXAMPLE OF A REPRESENTATION LETTER**

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances. This illustrative letter is written in the context of a half-year financial report under the *Corporations Act 2001*. [Refer to paragraph 24 of this Auditing Standard for required representations.](#)

Representations by management will vary from one entity to another and from one period to the next. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management have made oral representations which the auditor wishes to confirm in writing.

[Entity Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your review of the half-year<sup>16</sup> financial report<sup>17</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether you became aware of any matter in the course of the review that makes you believe that the half-year financial report does not comply with the *Corporations Act 2001*.

We acknowledge our responsibility for ensuring that the half-year financial report complies with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the [company/entity]’s financial position as at [date] and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

We confirm that the half-year financial report is prepared and presented in accordance with the *Corporations Act 2001* and is free of material misstatements, including omissions.

OR

[This representation letter is provided in connection with your review of the financial report<sup>18</sup> of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether anything has come to your attention that causes you to believe that the financial report does present fairly, in all material respects<sup>19</sup>, in accordance with [the applicable financial reporting framework<sup>20</sup>].

We acknowledge our responsibility for ensuring that the financial report is in accordance with [applicable financial reporting framework].

We confirm that the financial report is prepared and presented fairly in accordance with [applicable financial reporting framework] and 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 review.

[Include representations required by this Auditing Standard (paragraph [2324](#)) and those relevant to the entity. Such representations may include the following examples.]

<sup>16</sup> If the period being reviewed is other than six months, then this should be amended as appropriate.

<sup>17</sup> If the term “half-year financial report” is not appropriate, then this term should be changed to reflect the type of report being reviewed.

<sup>18</sup> The term “financial report” should be changed to reflect the type of report being reviewed, as appropriate.

<sup>19</sup> If a compliance framework are wording in paragraph [32-34 \(e\)](#) (iii)

<sup>20</sup> Specify the applicable financial reporting framework/requirements.

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We have made available to you:

- (a) all financial records and related data, other information, explanations and assistance necessary for the conduct of the review; and
- (b) minutes of all meetings of [shareholders, directors, committees of directors, Boards of Management].

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.

There:

- (a) has been no fraud or suspected fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
- (b) has been no fraud or suspected fraud, error or non-compliance with laws and regulations that could have a material effect on the financial report; and
- (c) 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.

We are responsible for an adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of a reliable financial report, and adequate financial records have been maintained. There are no material transactions that have not been recorded properly in the accounting records underlying the financial report.

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

We have considered the requirements of Accounting Standard AASB 136 *Impairment of Assets*, when assessing the impairment of assets and in ensuring that no assets are stated in excess of their recoverable amount.

We believe the effects of uncorrected misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the [half-year] financial report taken as a whole.

The following have been recorded and/or disclosed properly in the [half-year] financial report:

- (a) related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral);
- (b) share options, warrants, conversions or other requirements;
- (c) arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements;
- (d) agreements to repurchase assets previously sold;
- (e) material liabilities or contingent liabilities or assets including those arising under derivative financial instruments;
- (f) unasserted claims or assessments that our lawyer(s) has advised us are probable of assertion;  
~~and~~
- (g) losses arising from the fulfilment of, or an inability to fulfil, any sale commitments or as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of prevailing market prices; ~~and~~.

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~~(g)~~(h) all known actual or possible litigation and claims whose effects should be considered when preparing the financial report in accordance with the applicable financial reporting framework

**Commented [AW38]:** Added for consistency with paragraph 24. Consistent with NZAuASB's example letter.

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.

The entity has satisfactory title to all assets, and there are no liens or encumbrances on such assets that have not been disclosed nor has any asset been pledged as collateral. Allowances for depreciation have been adjusted for all important items of property, plant and equipment that have been abandoned or are otherwise unusable.

The entity has complied with all aspects of contractual agreements that would have a material effect on the financial report in the event of non-compliance.

There were no material commitments for construction or acquisition of property, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial report.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

No events have occurred subsequent to the balance sheet date through to the date of this letter that would require adjustment to, or disclosure in, the [financial report].

We understand that your examination was made in accordance with Auditing Standard on Review Engagements ASRE 2410 and was, therefore, designed primarily for the purpose of expressing a conclusion on the financial report of [the entity], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

*Notes:*

[The above example representation letter may need to be amended in certain circumstances. The following illustrate some of those situations.]

**Exceptions**

Where matters are disclosed in the financial report, the associated representation needs to be amended, for example:

- If a subsequent event has been disclosed, Item 14 (above) could be modified to read:  
“Except as discussed in Note X to the financial report, no events have occurred .....”
- If the entity has plans that impact the carrying values of assets and liabilities, Item 5 (above) could be modified to read:  
“The entity has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plan to dispose of segment X, as disclosed in note Y in the financial report, which is discussed in the minutes of the meeting of the governing body<sup>21</sup> held on [date]”.

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<sup>21</sup> Insert the appropriate term, such as “Directors or Board of Management”.

### **Other Required Information**

Certain entities may be required to include other information in the financial report, for example, performance indicators for government entities. In addition to identifying this information and the applicable financial reporting framework in paragraphs 1 and 2 of the example management representation letter, an additional paragraph similar to the following may be appropriate:

“The disclosures of key performance indicators have been prepared and presented in conformity with [relevant statutory requirements] and we consider the indicators reported to be relevant to the stated objectives of the [entity]”.

### **Management’s Opinions and Representation in the Notes to the Financial Statements**

Where the notes to the financial statements include opinions and representations by management, such matters may be addressed in the representation letter. For example, notes relating to the anticipated outcome of litigation, the intent and ability to hold long-term securities to maturity and plans necessary to support the going concern basis.

### **Environmental Matters**

In situations where there are environmental matters that may, but probably will not, require an outflow of resources, this may be reflected in an addition to Item 9 (above), for example:

“However, the [entity] has received a notice from the Environmental Protection Agency that it may be required to share in the cost of cleanup of the [name] waste disposal site. This matter has been disclosed in Note A in the financial report and we believe that the disclosure and estimated contingent loss is reasonable based on available information.”

### **Compliance**

If, as part of the review, the auditor is required also to report on the entity’s compliance with laws and regulations, a representation may be appropriate acknowledging that management is responsible for the entity’s compliance with applicable laws and regulations and that the requirements have been met. For example, for reviews under the *Corporations Act 2001*, the following paragraph may be added:

“The financial records of the [company, registered scheme or disclosing entity] have been kept so as to be sufficient to enable a financial report to be prepared and reviewed, and other records and registers required by the *Corporations Act 2001* have been kept properly and are up-to-date.

### **Other Matters**

Additional representations that may be appropriate in specific situations may include the following:

- Justification for a change in accounting policy.
- The work of a management expert has been used.
- Arrangements for controlling the dissemination of the financial report and auditor’s review report on the Internet.

## **Appendix 2**

(Ref: Para. A20)

### **ANALYTICAL PROCEDURES THE AUDITOR MAY CONSIDER WHEN PERFORMING A REVIEW OF A FINANCIAL REPORT**

The analytical procedures carried out in a review of a financial report are determined by the auditor's judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

Examples of analytical procedures the auditor may consider when performing a review of a financial report include the following:

- Comparing the financial report with the financial report of the immediately preceding period, with the financial report of the corresponding period of the preceding financial year, with the financial report that was expected by management for the current period, and with the most recent audited annual financial report.
- Comparing the current financial report with anticipated results, such as budgets or forecasts. For example, comparing sources of revenue and the cost of sales in the current financial report with corresponding information in:
  - budgets, including expected gross margin(s); and
  - financial information for prior periods.
- Comparing the current financial report with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial report with corresponding relationships in the financial report of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
  - by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
  - by product line or source of revenue;
  - by location, for example by component;
  - by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
  - by several attributes of the transaction, for example, sales by product and month.

## **ILLUSTRATIVE DETAILED PROCEDURES THAT MAY BE PERFORMED IN AN ENGAGEMENT TO REVIEW A FINANCIAL REPORT**

The enquiry, analytical and other procedures carried out in a review of a financial report are determined by the auditor exercising professional judgement in light of the auditor's assessment of the risk of material misstatement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a program or checklist in the conduct of a review.

### *General*

1. Confirm that the engagement team complies with relevant independence and ethical requirements.
2. Prepare and send an engagement letter to the entity.
3. Discuss the terms and scope of the engagement with the engagement team.
4. Obtain or update knowledge and understanding of the business, the key internal and external changes (including laws and regulations), and their effect on the scope of the review, materiality and risk assessment. This can be performed through the following:
  - a. Ascertaining whether there have been any significant changes to the nature and scope of operations.
  - b. Considering the results and effects of previous audits and review engagements.
  - c. Enquiring of persons responsible for financial reporting in respect of matters that impact on the reliability of the underlying accounting records. For example, considering fraud risk, material weaknesses in internal controls and any significant changes to internal control policies and procedures
  - d. Considering the results of any internal audits performed and the subsequent actions taken by management.
  - e. Considering whether additional procedures will be required on any significant accounts where internal controls relating to significant processes have been historically unreliable in detecting and preventing errors in the financial report.
  - f. The auditor shall enquire of management and, where appropriate, those charged with governance, as to the existence of any actual or suspected non-compliance with provisions of laws and regulations that are generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. Refer to ASA 250 for further guidance if considered appropriate.

Assess the relevance and impact of the results of the above procedures on the current period.

5. Determine materiality, exercising professional judgement, considering both qualitative and quantitative factors.
6. Enquire of persons responsible for financial reporting about the following:
  - a. Accounting policies adopted and consider whether:
    - i. they comply with the applicable financial reporting framework;
    - ii. they have been applied appropriately; and
    - iii. they have been applied consistently and, if not, consider whether disclosure has been made of any changes in the accounting policies.

**Commented [AW39]:** This section is not included in NZAuASB's NZISRE 2410. An existing difference to ASRE 2410. Retained as some auditor may find this useful.

**Commented [AW40]:** Added in response to comment from respondent.

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- b. Policies and procedures used to assess asset impairment and any consequential estimation of recoverable amount.
  - c. The policies and procedures to determine the fair value of financial assets and financial liabilities.
  - d. New, unusual or complex situations that may have affected the financial report such as a business combination or disposal of a segment of the business. Consider adequacy of additional note disclosures in the financial report.
  - e. Plans to dispose of major assets or business segments.
  - f. Material off-balance sheet transactions, special purpose entities and other equity investments and related accounting treatment and disclosure.
  - g. Knowledge of any allegations of fraud, or suspected fraud.
  - h. Knowledge of any actual or possible significant non-compliance with laws and regulations.
  - i. Compliance with debt covenants.
  - j. Material or unusual related party transactions.
  - k. New or significant changes in commitments, contractual obligations.
7. Obtain and read the minutes of meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial report, and enquire about matters dealt with at meetings for which minutes are not yet available that may affect the financial report.
8. Enquire if actions taken at meetings of shareholders or those charged with governance that affect the financial report have been appropriately reflected therein.
9. Ensure the financial report is agreed to the trial balance ~~and is fairly presented~~ including ~~additional disclosures~~ *notes*. If applicable, enquire as to whether all intercompany balances have been eliminated.
10. Review other information included in the financial report and document findings. Discuss any material misstatements of fact with the entity's management.

*Cash*

- 11. Obtain the bank reconciliations. Enquire about any old or unusual reconciling items with client personnel to assess reasonableness.
- 12. Enquire about transfers between cash accounts for the period before and after the review date.
- 13. Enquire whether there are any restrictions on cash accounts.

*Revenue and Receivables*

- 14. Enquire about the accounting policies for recognising sales revenue and trade receivables and determine whether they have been consistently and appropriately applied.
- 15. Obtain a schedule of receivables and determine whether the total agrees with the trial balance.
- 16. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.

**Commented [AW41]:** To incorporate compliance frameworks

17. Obtain an aged analysis of the trade receivables. Enquire about the reason for unusually large accounts, credit balances on accounts or any other unusual balances and enquire about the collectability of receivables.
18. Consider, with management, the classification of receivables, including non-current balances, net credit balances and amounts due from shareholders, those charged with governance and other related parties in the financial report.
19. Enquire about the method for identifying “slow payment” accounts and setting allowances for doubtful accounts and consider it for reasonableness.
20. Enquire whether receivables have been pledged, factored or discounted and determine whether they have been properly accounted for.
21. Enquire about procedures applied to ensure that a proper cut-off of sales transactions and sales returns has been achieved.
22. Enquire whether accounts represent goods shipped on consignment and, if so, whether adjustments have been made to reverse these transactions and include the goods in inventory.
23. Enquire whether any large credits relating to recorded income have been issued after the balance sheet reporting date and whether provision has been made for such amounts. Consider the reasonableness of any provisions.

#### *Inventories*

24. Obtain the inventory list and determine whether:
  - a. the total agrees with the balance in the trial balance; and
  - b. the list is based on a physical count of inventory.
25. Enquire about the method for counting inventory.
26. Where a physical count was not carried out on the balance sheet date, enquire whether:
  - a. a perpetual inventory system is used and whether periodic comparisons are made with actual quantities on hand; and
  - b. an integrated cost system is used and whether it has produced reliable information in the past.
27. Consider adjustments made resulting from the last physical inventory count.
28. Enquire about procedures applied to control cut-off and any inventory movements.
29. Enquire about the basis used in valuing each inventory classification and, in particular, regarding the elimination of inter-branch profits. Enquire whether inventory is valued at the lower of cost and net realisable value (or lower of cost and replacement cost for not-for-profit organisations).
30. Consider the consistency with which inventory valuation methods have been applied, including factors such as material, labour and overhead.
31. Compare amounts of major inventory categories with those of prior periods and with those anticipated for the current period. Enquire about major fluctuations and differences.
32. Compare inventory turnover with that in previous periods.
33. Enquire about the method used for identifying slow moving and obsolete inventory and whether such inventory has been accounted for at net realisable value.

- 34. Enquire whether any inventory has been consigned to the entity and, if so, whether adjustments have been made to exclude such goods from inventory.
- 35. Enquire whether any inventory is pledged, stored at other locations or on consignment to others and consider whether such transactions have been accounted for appropriately.

*Investments (Including Associated Entities and Financial Instruments)*

- 36. Obtain a schedule of the investments at the balance sheet reporting date and determine whether it agrees with the trial balance.
- 37. Enquire whether the accounting policy applied to investments is consistent with prior periods.
- 38. Enquire from management about the carrying values of investments. Consider whether there are any realisation problems.
- 39. Enquire whether there are any new investments, including business combinations. Consider classification, measurement and disclosure in respect of material or significant acquisitions.
- 40. Consider whether gains and losses and investment income have been properly accounted for.
- 41. Enquire about the classification of long-term and short-term investments.

*Property Plant and Equipment and Depreciation*

- 42. Obtain a schedule of the property, plant and equipment indicating the cost and accumulated depreciation and determine whether it agrees with the trial balance.
- 43. Enquire about the accounting policy applied regarding residual values, provisions to allocate the cost of property, plant and equipment over their estimated useful lives using the expected pattern of consumption of the future economic benefits and distinguishing between capital and maintenance items. Consider whether there are any indicators of impairment and whether the property, plant and equipment have suffered a material, permanent impairment in value.
- 44. Discuss with management the additions and deletions to property, plant and equipment accounts and accounting for gains and losses on disposals or de-recognition. Enquire whether all such transactions have been properly accounted for.
- 45. Enquire about the consistency with which the depreciation method and rates have been applied and compare depreciation provisions with prior years.
- 46. Enquire whether there are any restrictions on the property, plant and equipment.
- 47. Enquire whether lease agreements have been properly reflected in the financial report in conformity with current accounting pronouncements.

*Prepaid Expenses, Intangibles and Other Assets*

- 48. Obtain schedules identifying the nature of these accounts and determine whether they agree with the trial balance. Discuss recoverability thereof with management.
- 49. Enquire whether management have updated their impairment calculations in respect of goodwill or other intangibles. Consider whether there have been any indicators of impairment for intangibles and enquire whether management have appropriately considered discount rates, growth rates, etc.
- 50. Enquire about the basis for recording these accounts and the amortisation methods used.
- 51. Compare balances of related expense accounts with those of prior periods and obtain explanations for significant variations with management.

Discuss the classification between current and non-current accounts with management.

*Investment Property*

- 52. Obtain a schedule of investment property and determine whether it agrees with the trial balance.
- 53. Enquire whether the accounting policy applied to investment property is consistent with prior periods.
- 54. Update with management the acquisitions and disposals to investment property and accounting for gains and losses on disposals or de-recognition. Determine whether all significant transactions have been accounted for appropriately.
- 55. Consider whether there are any indicators of impairment and whether any investment property was subject to recent valuations.

*Loans Payable*

- 56. Obtain from management a schedule of loans payable and determine whether the total agrees with the trial balance.
- 57. Enquire whether there are any loans where there has been a change to the terms and conditions or management has not complied with the provisions of the loan agreement, including any debt covenants. Assess whether loans have been appropriately classified as current or non-current in the financial report.
- 58. Where material, consider the reasonableness of interest expense in relation to loan balances.
- 59. Enquire whether loans payable are secured. Review loan and working capital facilities. Enquire if options to extend terms have been exercised or if any debt requires refinancing.

*Trade Payables*

- 60. Enquire about the accounting policies for initially recording trade payables and whether the entity is entitled to any allowances given on such transactions.
- 61. Obtain and consider explanations of significant variations in account balances from previous periods or from those anticipated.
- 62. Obtain a schedule of trade payables and determine whether the total agrees with the trial balance.
- 63. Enquire whether balances are reconciled with the creditors' statements and compare with prior period balances. Compare turnover with prior periods.
- 64. Consider whether there could be material unrecorded liabilities.
- 65. Enquire whether payables to shareholders, those charged with governance and other related parties are separately disclosed.

*Other Liabilities and Contingent Liabilities*

- 66. Obtain a schedule of other liabilities and determine whether the total agrees with the trial balance.
- 67. Compare major balances of related expense accounts with similar accounts for prior periods.

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- 68. Enquire about approvals for such other liabilities, terms of payment, compliance with terms, collateral and classification.
- 69. Enquire about other liabilities to assess whether the methodology and assumptions adopted are consistent with prior periods. Enquire whether there are any unusual trends and developments affecting accounting estimates.
- 70. Enquire as to the nature of amounts included in contingent liabilities and commitments.
- 71. Enquire whether any actual or contingent liabilities exist which have not been recognised in the accounts. If so, enquire with management and/or those charged with governance whether provisions need to be made in the accounts or whether disclosure should be made in the notes to the financial report.

*Income and Other Taxes*

- 72. Enquire from management if there were any events, including disputes with taxation authorities, which could have a significant effect on the taxes payable by the entity. Examine correspondence in relation to any significant matters arising and assess whether events have been reflected appropriately in the financial report.
- 73. Consider the tax expense in relation to the entity's income for the period.
- 74. Enquire from management as to the adequacy of the recognised deferred and current tax assets and/or liabilities including provisions in respect of prior periods.

*Financial Instruments*

- 75. Enquire or update knowledge and understanding with persons responsible for financial reporting (including any treasury specialist), of what derivatives are in place, what accounting policies are applied to these derivatives and whether they have been consistently applied.
- 76. Enquire whether any hedges have been entered into for speculative purposes.
- 77. Enquire whether there are adequate policies and procedures to determine the fair value of financial assets and financial liabilities.
- 78. Enquire whether there are any sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity.

*Employee Share Plans*

- 79. Enquire about any new employee share plans or changes to existing plans, and where employee share plans are material, assess whether the accounting methodology has been consistently applied.

*Subsequent Events*

- 80. Obtain from management the latest financial report and compare it with the financial report being reviewed or with those for comparable periods from the preceding year.
- 81. Enquire about events after the balance sheet reporting date that would have a material effect on the financial report under review and, in particular, enquire whether:
  - a. any substantial commitments or uncertainties have arisen subsequent to the balance sheet date;
  - b. any significant changes in the share capital, long-term debt or working capital have occurred up to the date of enquiry; and

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- c. any unusual adjustments have been made during the period between the balance sheet reporting date and the date of enquiry.

Consider the need for adjustments or disclosure in the financial report.

- 82. Obtain and read the minutes of meetings of shareholders, those charged with governance and appropriate committees subsequent to the balance sheet date and consider any impact of the financial report and disclosures.

*Litigation*

- 83. Enquire from persons responsible for financial reporting, and where appropriate in-house litigation specialists, whether the entity is the subject of any legal actions - threatened, pending or in process. Consider the effect thereof on the financial report and any provision for loss.

*Equity*

- 84. Obtain and consider a schedule of the transactions in the equity accounts, including new issues, retirements and dividends. Consider whether there are any unusual terms for new issues of debt or equity which could affect classification.
- 85. Enquire whether there are any restrictions on retained earnings or other equity accounts.

*Operations*

- 86. Compare results with those of prior periods and those expected for the current period. Obtain explanations of significant variations with management.
- 87. Enquire whether the recognition of major revenue and expenses have taken place in the appropriate periods.
- 88. Enquire whether the policies and procedures related to revenue recognition, including accrued income, have been consistently applied and whether there are any new or complex changes, including any changes in major contracts with customers or suppliers.
- 89. Consider and update with management the relationship between related items in the revenue account and assess the reasonableness thereof in the context of similar relationships for prior periods and other information available to the auditor.
- 90. Discuss the policy in respect of capitalisation of interest and whether it is in accordance with Australian Accounting Standards.

*Going Concern Assessment*

- 91. Consider the going concern assumption. When events or conditions come to attention which [may](#) cast significant doubt on the entity's ability to continue as a going concern, perform additional procedures to assess the impact on the financial report and auditor's review report [as required by paragraph 19 of this Auditing Standard](#). Additional procedures ~~may~~ include:
  - a. Discussion with those charged with governance to understand the events and circumstances that have contributed to the current situation to determine whether the risk arising can be mitigated.
  - b. Plans for future actions, such as plans or intentions to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.
  - c. Feasibility of the plans and whether those charged with governance believe that the outcome of these plans will improve the situation.

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Consider the adequacy of disclosure about such matters in the financial report. [Auditors may also refer to ASA 570 \*Going Concern\* for guidance which may be helpful.](#)

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*Evaluation of Misstatements*

- 92. Ensure significant review differences have been summarised and their effect evaluated.
- 93. Ensure material adjustments identified are notified to management/ those charged with governance (as appropriate).

*Written Representations*

- 94. Obtain written representation from the directors/management/those charged with governance (as appropriate) to confirm matters arising during the course of the review engagement.

*Documentation*

- 95. Ensure that review documentation is sufficient and appropriate to provide a basis for the conclusion and to provide evidence of compliance with ASRE 2410.

## **Appendix 3**

(Ref: Para. ~~A41~~A44)

### **AN AUDITOR'S REVIEW REPORT UNDER THE CORPORATIONS ACT 2001**

#### **Financial Report for a Half-year**

##### **Introduction**

1. This Appendix has been prepared to assist an auditor, engaged to undertake a review engagement, by providing an example of an auditor's review report on a review of a financial report for a half-year prepared in accordance with Part 2M.3 of the *Corporations Act 2001* (The Act). The example reflects both requirements of this Auditing Standard and the Act, but is not intended to require standard wording for the circumstances of particular modifications.
2. This Appendix contains limited extracts from the Act and the Australian Accounting Standards in order to provide a context for the example report included in this Appendix. These selected extracts are included in this Appendix only for the purpose stated and accordingly are not intended to be an exhaustive list of an auditor's obligations and requirements which are found elsewhere in this Auditing Standard, the Act, the Australian Accounting Standards and other relevant mandates.
3. This Appendix:
  - a) Includes selected extracts from the Act and Australian Accounting Standards, and references to other relevant information, to provide a contextual framework; and
  - b) Provides an example of an auditor's review report.

##### **Contextual Framework**

###### ***Corporations Act 2001***

The following selected extracts from the Act are included in this Appendix only to point to some of the important requirements of the Act that affect auditors engaged to undertake a review engagement in accordance with the Act.

4. Section 302 states:

“A disclosing entity<sup>22</sup> must:

- a) prepare a financial report and directors' report for each half-year; and
- b) have the financial report audited or reviewed in accordance with Division 3 and obtain an auditor's report; and
- c) lodge the financial report, the director's report and the auditor's report on the financial report with ASIC;

unless the entity is not a disclosing entity when lodgement is due”.

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<sup>22</sup> The definition of a “disclosing entity” is found in Part 1.2A, Division 2, section 111AC of the *Corporations Act 2001*.

5. Section 303(1) states:

- a) “The financial report for a half-year consists of:
- b) the financial statements for the half-year;
- c) the notes to the financial statements; and
- d) the directors’ declaration about the statements and notes”.

6. Section 304 states:

“The financial report for a half-year must comply with the accounting standards and any further requirements in the regulations”.

7. Section 305 states:

“The financial statements and notes for a half-year must give a true and fair view of:

- a) the financial position and performance of the disclosing entity; or
- b) if consolidated financial statements are required the financial position and performance of the consolidated entity.

This section does not affect the obligation under section 304 for financial reports to comply with accounting standards.

**Note:** If the financial statements prepared in compliance with the accounting standards would not give a true and fair view, additional information must be included in the notes to the financial statements under paragraph 303(3)(c)”.

8. Section 309(4) states:

“An auditor who reviews the financial report for a half-year must report to members on whether the auditor became aware of any matter in the course of the review that makes the auditor believe the financial report does not comply with Division 2”.

9. Section 309(5) states:

“A report under subsection (4) must:

- a) Describe any matter referred to in subsection (4); and
- b) Say why that matter makes the auditor believe that the financial report does not comply with Division 2”.

10. Section 309(5A) states:

“The auditor’s report must include any statements or disclosures required by the auditing standards”.

11. Section 320 states:

“A disclosing entity that has to prepare or obtain a report for a half-year under Division 2 must lodge the report with ASIC within 75 days after the end of the half-year”.

**Other Information – ASIC and ASX**

12. An auditor, in the role of auditor, is required by section 311 of the Act to notify ASIC if the auditor is aware of certain circumstances. ASIC Regulatory Guide 34 *Auditors' obligations: reporting to ASIC* (May 2013), provides guidance to help auditors comply with their obligations under section 311 of the Act.
13. ASIC and the ASX have agreed that listed entities can satisfy the requirements of the Act by lodging the half-year financial report, the directors' report, and the auditor's review report on the financial report with the ASX. Details are provided in ASIC Regulatory Guide 28 *Relief from dual lodgement of financial reports* (July 2003) and *ASIC Corporations (Electronic Lodgement of Financial Reports) Instrument 2601/181*.

**Australian Accounting Standards**

14. Minimum Components of an Interim Financial Report – AASB 134 *Interim Financial Reporting*, paragraph 8:

An interim financial report shall include, at a minimum, the following components:

- a) a condensed statement of financial position;
- b) a condensed statement or condensed statements of profit or loss and other of comprehensive income;
- c) a condensed statement of changes in equity showing either:
  - i. all changes in equity; or
  - ii. changes in equity other than those arising from capital transactions with owners and distributions to owners;
- d) a condensed statement of cash flows; and
- e) selected explanatory notes.

15. Form and Content of Interim Financial Reports - AASB 134 paragraph 9 states:

"If an entity publishes a complete set of financial report statements in as its interim financial report, the form and content of those statements that report shall conform to the requirements of AASB 101 for a complete set of financial statements for a financial report".

16. Form and Content of Interim Financial Reports – AASB 134 paragraph 10 states:

"If an entity publishes a set of condensed financial statements report as in its interim financial report, that condensed statements report shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial report statements and the selected explanatory notes as required by this Standard. Additional line items or notes shall be included if their omission would make the condensed interim financial report statements misleading".

17. Materiality - AASB 134 paragraph 23 states:

"In deciding how to recognise, measure, classify, or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data".

**EXAMPLE OF AN UNMODIFIED AUDITOR'S REVIEW REPORT ON  
A CONDENSED HALF-YEAR FINANCIAL REPORT – SINGLE  
DISCLOSING LISTED ENTITY COMPANY – CORPORATIONS ACT  
2001**

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of [name of entity]

**Report on the Half-Year Financial Report<sup>23</sup>**

*Conclusion*

We have reviewed the ~~accompanying~~ half-year financial report of [name of entity], which comprises the ~~condensed~~ statement of financial position as at 31 December 20XX, the ~~condensed~~ statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, ~~notes comprising a summary of~~ significant accounting policies<sup>24</sup> and other explanatory information, and the directors' declaration.<sup>25</sup>

Based on our review, ~~which~~ which is not an audit, we have not become aware of any matter that makes us believe that the ~~accompanying~~ half-year financial report of [name of company/registered scheme/disclosing entity] does not comply with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the [name of entity's] financial position as at 31 December 20XX and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (including *International Independence Standards*) (the Code) that are relevant to audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.<sup>26</sup>

*Responsibilities of the Directors for the Financial Report*

<sup>23</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>24</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>25</sup> When the auditor is aware that the half-year financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited half-year financial report is presented.

<sup>26</sup> Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's review report was made.

**Commented [SWE42]:** Respondent suggested to be consistent with ASA 700

**Commented [SWE43]:** to be consistent with ASA 700

**Commented [AW44]:** conforming amendment to ethics code

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

~~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.~~

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 20XX and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

~~We make enquiries about whether the Directors have changed their assessment of the Company's ability to continue as a going concern. When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, we enquire of the Directors as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the half-year financial report.~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's name and signature]<sup>27</sup>

[Name of firm]<sup>29</sup>

[Date of the auditor's review report]<sup>28</sup>

[Auditor's address]

<sup>27</sup> Consistent with ASA 700 Paragraph 46, under the *Corporations Act 2001* the auditor of a company or registered scheme is required to sign the auditors' review report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

<sup>28</sup> The date of the auditor's report is the date the auditor signs the report.

**Appendix 4**

(Ref: Para. ~~A41~~A43)

**Illustrations of Auditors' Review Reports for financial reports not prepared under the *Corporations Act 2001* —Unmodified and Modified Conclusions**

Example A - Unmodified Auditor's Review Report - ~~Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation~~ Fair Presentation on a Financial Report

~~Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation~~

**Commented [AW45]:** Changed to simplify titles.

Example B - Auditor's Review Report with a Qualified Conclusion (Except For) for a Departure from the Applicable Financial Reporting Framework - ~~Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation~~ Framework

Example C - Auditor's Review Report with a Qualified Conclusion for a Limitation On Scope Not Imposed by Management - ~~Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation~~ Framework

Example D - Auditor's Review Report with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework - ~~Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Fair Presentation~~ Framework

Example E - Unmodified Auditor's Review Report on a Financial Report - ~~Financial Report Prepared in Accordance with a Financial Reporting Framework Designed to Achieve Compliance~~ Framework

**EXAMPLE A - UNMODIFIED AUDITOR'S REVIEW REPORT ON A  
FINANCIAL REPORT -**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A  
FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE  
FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>29</sup>**

*Conclusion*

We have reviewed the ~~accompanying~~ [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and ~~statement of~~ cash flows ~~statement~~ for the year then ended, ~~and notes to the financial report, including a summary of~~ significant accounting policies<sup>30</sup> and other explanatory information, and [the declaration by those charged with governance].<sup>31,32</sup>

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the ~~accompanying~~ [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>33</sup>] the financial position of the [entity] as at [date], and its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ~~ethical auditor independence~~ requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*Responsibilities of Management for the Financial Report<sup>34</sup>*

Management of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control management determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial report, management are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the~~

<sup>29</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>30</sup> Insert relevant statement or description of accounting policies as required by AASB 134

<sup>31</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>32</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>33</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>34</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

**Auditing Standard on Review Engagements ASRE 2410**  
*Review of a Financial Report Performed by the Independent Auditor of the Entity*

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~~going concern basis of accounting unless management either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.~~

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial report does not present fairly, in all material respects, [or “give a true and fair view of”] the financial position of the [entity] as at [date] and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

~~We make enquiries about whether management has changed their assessment of the Company's ability to continue as a going concern. When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, we enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial report.~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]<sup>35</sup>

[Date of the auditor's review report]<sup>36</sup>

[Auditor's address]

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<sup>35</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>36</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE B - AUDITOR'S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION (EXCEPT FOR) FOR A DEPARTURE FROM THE  
APPLICABLE FINANCIAL REPORTING FRAMEWORK – FAIR  
PRESENTATION FRAMEWORK**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A FINANCIAL REPORTING  
FRAMEWORK DESIGNED TO ACHIEVE FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>37</sup>**

*Qualified Conclusion*

We have reviewed the ~~accompanying~~ [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and ~~statement of~~ cash flows ~~statement~~ for the year then ended, ~~and notes to the financial report, including a summary of~~ significant accounting policies<sup>38</sup> and other explanatory information, and [the declaration by those charged with governance<sup>39</sup>].<sup>40\*41</sup>

Based on our review, which is not an audit, except for the effects of the matter described in the *Basis for Qualified Conclusion* section, nothing has come to our attention that causes us to believe that the ~~accompanying~~ [period] financial report of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”<sup>42</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

Based on information provided to us by management, [name of entity] has excluded from property and long-term debt certain lease obligations that we believe should be capitalised to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$ \_\_\_\_\_, long-term debt by \$ \_\_\_\_\_, and net income and earnings per share would be increased (decreased) by \$ \_\_\_\_\_ and \$ \_\_\_\_\_ respectively for the [period] ended on that date.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the ~~Independent~~ Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ~~ethical auditor independence~~ requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our ~~audit~~ review of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

<sup>37</sup> The sub-title “Report on the Financial Report” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements”, or other appropriate sub-title, is not applicable.

<sup>38</sup> Insert relevant statement or description of accounting policies as required by AASB 134

<sup>39</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>40</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>41</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>42</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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*Responsibility of Management for the Financial Report*<sup>43</sup>

Management are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial report, management are responsible for assessing the entity'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 [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.~~

*Auditor's Responsibilities for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>44</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

~~We make enquiries about whether management have changed their assessment of the Company's ability to continue as a going concern. When as a result of this enquiry and other review procedures, we become aware of events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, we enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial report.~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]<sup>45</sup>

[Date of the auditor's review report]<sup>46</sup>

[Auditor's address]

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<sup>43</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>44</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>45</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>46</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE C - AUDITOR'S REVIEW REPORT WITH A QUALIFIED  
CONCLUSION FOR A LIMITATION ON SCOPE NOT IMPOSED BY  
MANAGEMENT -**

**~~FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A  
FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE  
FAIR PRESENTATION~~ FRAMEWORK**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>47</sup>**

*Qualified Conclusion*

We have reviewed the ~~accompanying~~ [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and ~~statement of~~ cash flows ~~statement~~ for the year then ended, ~~and notes to the financial report, including a summary of~~ significant accounting policies<sup>48</sup> and other explanatory information, and [the declaration by those charged with governance<sup>49</sup>].<sup>50 51</sup>

Based on our review, which is not an audit, except for the possible effects of the matter described in the *Basis for Qualified Conclusion* section, nothing has come to our attention that causes us to believe that the ~~accompanying~~ [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>52</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Qualified Conclusion*

As a result of a fire in a branch office on [date] that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$ \_\_\_\_\_ included in the [period] financial report. The [entity] is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. We consider the possible effects incapable of reliable measurement at this time. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the [period] financial report.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the ~~Independent~~ Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ~~ethical auditor independence~~ requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

<sup>47</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>48</sup> Insert relevant statement or description of accounting policies as required by AASB 134

<sup>49</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>50</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>51</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>52</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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*Responsibility of Management for the Financial Report*<sup>53</sup>

Management of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as management determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial report, management are responsible on behalf of the entity for assessing the entity'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 [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.~~

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>54</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

~~We make enquiries about whether management have changed their assessment of the Company's ability to continue as a going concern. When as a result of this enquiry and other review procedures, we become aware of events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, we enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial report.~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>55</sup>]

[Date of the auditor's review report<sup>56</sup>]

[Auditor's address]

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<sup>53</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>54</sup> ASA 700 Forming an Opinion and Reporting on a Financial Report, contains information on the wording of reports that may be helpful.

<sup>55</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>56</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE D AUDITOR'S REVIEW REPORT WITH AN ADVERSE  
CONCLUSION FOR A DEPARTURE FROM THE APPLICABLE FINANCIAL  
REPORTING FRAMEWORK -**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A  
FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE  
FAIR PRESENTATION**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>57</sup>**

*Adverse Conclusion*

We have reviewed the ~~accompanying~~ [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, ~~notes comprising a summary of~~ significant accounting policies<sup>58</sup> and other explanatory information, and [the declaration of those charged with governance<sup>59</sup>].<sup>60,61</sup>

Based on our review, which is not an audit, because of the significance of the matter described in the *Basis for Adverse Conclusion* section of our report, ~~this the accompanying~~ [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of<sup>62</sup>"] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

*Basis for Adverse Conclusion*

As explained in Note X, commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial reports of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [applicable financial reporting framework]. Had a consolidated financial report been prepared, virtually every account in the financial report would have been materially different. The effects on the financial report of the failure to consolidated have not been determined.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ~~ethical auditor independence~~ requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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<sup>57</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>58</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>59</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>60</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>61</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>62</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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*Responsibility of Management for the Financial Report*<sup>63</sup>

Management of the [type of entity] are responsible for the preparation and fair presentation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control as management determine is necessary to enable the preparation and fair presentation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial report, [those charged with governance] are responsible on behalf of the entity for assessing the entity'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 [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.~~

*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial report of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"<sup>64</sup>] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

~~We make enquiries about whether management have changed their assessment of the Company's ability to continue as a going concern. When as a result of this enquiry and other review procedures, we become aware of events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, we enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial report.~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature<sup>65</sup>]

[Date of the auditor's review report]<sup>66</sup>

[Auditor's address]

---

<sup>63</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>64</sup> ASA 700 *Forming an Opinion and Reporting on a Financial Report*, contains information on the wording of reports that may be helpful.

<sup>65</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>66</sup> The date of the auditor's report is the date the auditor signs the report.

**EXAMPLE E - UNMODIFIED AUDITOR'S REVIEW REPORT ON A  
FINANCIAL REPORT -**

**FINANCIAL REPORT PREPARED IN ACCORDANCE WITH A  
FINANCIAL REPORTING FRAMEWORK DESIGNED TO ACHIEVE  
COMPLIANCE FRAMEWORK**

INDEPENDENT AUDITOR'S REVIEW REPORT

To [appropriate addressee]

**Report on the [appropriate title for the financial report] Financial Report<sup>67</sup>**

*Conclusion*

We have reviewed the ~~accompanying~~ [period] financial report of [name of entity], which comprises the statement of financial position as at [date], the statement of comprehensive income, statement of changes in equity and ~~statement of~~ cash flows ~~statement~~ for the year then ended, ~~and notes to the financial report, including a summary of~~ significant accounting policies<sup>68</sup> and other explanatory information, and [the declaration by those charged with governance<sup>69</sup>].<sup>70 71</sup>

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the ~~accompanying~~ [period] financial report of [name of entity] has not been prepared, in all material respects, in accordance with [applicable financial reporting framework].

*Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the [entity] in accordance with the ~~ethical auditor independence~~ requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that are relevant to our ~~audit review~~ of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

*Responsibility of Management for the Financial Report<sup>72</sup>*

Management of the [type of entity] are responsible for the preparation of the [period] financial report in accordance with the [applicable financial reporting framework] and for such internal control management determine is necessary to enable the preparation of the [period] financial report that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial report, management are responsible for assessing the entity'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 management either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.~~

<sup>67</sup> The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

<sup>68</sup> Insert relevant statement or description of accounting policies as required by AASB 134.

<sup>69</sup> Amend these terms to reflect the appropriate assertion statement and title for those charged with governance.

<sup>70</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the reviewed financial report is presented.

<sup>71</sup> The auditor may wish to specify the regulatory authority or equivalent with whom the financial report is filed.

<sup>72</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

**Auditing Standard on Review Engagements ASRE 2410**  
***Review of a Financial Report Performed by the Independent Auditor of the Entity***

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*Auditor's Responsibility for the Review of the Financial Report*

Our responsibility is to express a conclusion on the financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the financial report has not been prepared, in all material respects in accordance with [applicable financial reporting framework].

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

~~We make enquiries about whether management has changed their assessment of the Company's ability to continue as a going concern. When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, we enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial report.~~

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's review report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]<sup>73</sup>

[Date of the auditor's review report]<sup>74</sup>

[Auditor's address]

---

<sup>73</sup> The auditor's review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

<sup>74</sup> The date of the auditor's report is the date the auditor signs the report.

4.4  
June 2020

**ASRE 2410**  
(June 2020)

## **Explanatory Statement**

# ***ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity***

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



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## **Reasons for Issuing Auditing Standard ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity***

The AUASB issues Auditing Standard ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is a Non Corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. This Auditing Standard is a legislative instrument under the *Legislation Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, *inter alia*, to develop auditing standards that have a clear public interest focus and are of the highest quality.

ASRE 2410 conforms with International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* (ISRE 2410).

## **Purpose of Auditing Standard ASRE 2410** *Error! Reference source not found.*

ASRE 2410 replaces existing ASRE 2410 issued by the AUASB in October 2009 and amended to July 2013, and conforms with on ISRE 2410. ASRE 2410 establishes requirements and provides application and explanatory material regarding the responsibilities of an auditor of an entity when engaged to undertake a review of a financial report, and on the form and content of the auditor's review report. ASRE 2410 has been re-issued to provide consistency of the form and content of the auditor's review report with the recently amended annual auditor's report prepared in accordance with ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

## **Main Features**

ASRE 2410 has been re-issued to provide consistency of the form and content of the auditor's review report with the recently amended annual auditor's report.

## **Operative Date**

It is intended that this proposed Auditing Standard on Review Engagements will be operative for financial reporting periods commencing on or after 1 July 2020 with early adoption permitted.

## **Process of making Australian Auditing Standards**

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

## **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 01/19 Proposed Auditing Standard on Review Engagements ASRE 2410 *Review*

*of a Financial Report Performed by the Auditor of the Entity* was issued in May 2019 with a 90 day comment period.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

### **Regulatory Impact Statement**

A Regulatory Impact Statement Preliminary Assessment (RIA) has been prepared in connection with the preparation of ASRE 2410 *Error! Reference source not found.*. The RIA has been cleared by the Office of Best Practice Regulation (OBPR).

## **STATEMENT OF COMPATIBILITY WITH HUMAN RIGHTS**

*Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011*

**Legislative Instrument:**            **Auditing Standard ASRE 2410** *Error! Reference source not found.*

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

### **Overview of the Legislative Instrument**

#### *Background*

The AUASB is a Non Corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

#### *Purpose of Auditing Standard ASRE 2410*

The purpose of ASRE 2410 is to replace the existing ASRE 2410.

#### *Main Features*

This Auditing Standard on Review Engagements is based on the Australian equivalent of ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor* and will replace the current ASRE 2410 issued by the AUASB in October 2009 and amended to July 2013. ASRE 2410 has been reissued to provide consistency of the review report with the annual auditor's report which has been recently amended.

### **Human Rights Implications**

The Auditing Standards are issued by the AUASB in furtherance of the objective of facilitating the Australian economy. The standards do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

#### *Conclusion*

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues due to the nature and content of the revised auditing standard.

# **Basis for Conclusions**

## ***ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity***

Prepared by the Auditing and Assurance Standards Board



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Basis for Conclusions**

This Basis for Conclusions is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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ISSN 2201-3628

Basis for Conclusions ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide a background to, and rationale for the development and approval of the Standard by the AUASB. The Basis for Conclusions relates to, but does not form part of, ASRE 2410.

No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## **BASIS FOR CONCLUSIONS**

### ***ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity***

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It provides a background to, and rationale for the development and approval of ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410), by the AUASB. The Basis of Conclusions relates to, but does not form part of ASRE 2410, and is not a substitute for reading the Standard.

#### **Background**

1. The AUASB has a strategic objective to develop, issue and maintain high quality Australian Auditing Standards. The AUASB takes input received from Australian stakeholders into account when developing Australian Auditing Standards.
2. From December 2016 the auditor's report has been enhanced to communicate more and in a transparent manner about the performance of the audit.
3. International Standard on Review Engagements ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* (ISRE 2410) has not been updated since 2006. The AUASB re-issued ASRE 2410 in 2009 in clarity format, and made further conforming amendments in June 2011 and July 2013.
4. Currently, whilst ASRE 2410 has not been updated, auditors can, but are not required to, use the new reporting format when issuing a review report provided any reporting is not inconsistent with ASRE 2410. On July 2017 the AUASB issued a Bulletin [Auditor review reports – the impact of the new auditor reporting requirements](#) to provide guidance on this matter.
5. Since this date the AUASB has observed inconsistency in auditor's review reports being issued, as some are in the old format contained in ASRE 2410 and others have been changed based on the guidance in the AUASB's Bulletin.
6. Consistent with the AUASB's principle of harmonisation with New Zealand, the AUASB agreed to develop an Exposure Draft in Australia concurrently with the NZAuASB, which incorporates the changes to the auditor's review report as a result of the enhanced auditor's report. In addition, it was agreed it was appropriate to include conforming amendments as a result of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR).
7. The AUASB issued [Explanatory Memorandum and Exposure Draft 01/19: ASRE 2410 Review of a Financial Report Performed by the Auditor of the Entity](#) (ED 01/19) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410. Refer to the Explanatory Memorandum for information about ED 01/19, and the AUASB's approach to implementing this standard in Australia.
8. The NZAuASB released their equivalent Exposure Draft NZAuASB 2019-1 (ED NZAuASB 2019-1) on 12 July 2019. Whilst the majority of the proposed changes in the EDs were consistent, the AUASB and the NZAuASB had alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern.
9. The AUASB issued [Addendum to Explanatory Memorandum Exposure Draft 01/19](#) on 19 July 2019 to:

- (a) Communicate to Australian stakeholders the different options presented by the AUASB and the NZAuASB on how to describe in the auditor's review report the auditor's responsibility relating to going concern; and
- (b) Request additional feedback on this issue, in order to inform the AUASB in its deliberations on the proposed amendments to ASRE 2410.

Refer paragraph 12 for further detail.

## Scope

10. The scope of the update to ASRE 2410 was to:

- (a) Align the format and content, where applicable to a review engagement, of the auditor's review report in ASRE 2410 to the auditor's report requirements in ASA 700<sup>1</sup>, ASA 705<sup>2</sup> and ASA 706<sup>3</sup>; and
- (b) Include conforming amendments, relevant to a review engagement, as a result of recent changes to ASA 250 *Considerations of Laws and Regulations in the Audit of a Financial Report*.

## Key proposed changes

11. The following proposed changes to ASRE 2410 were included in ED 01/19:

- (a) Updated communication requirements and alignment of terminology for NOCLAR;
- (b) To reorder the auditor's review report so that the conclusion comes first, followed by a basis for conclusion. This is for consistency with the principles in the auditor's report under ASA 700;
- (c) To include a description of the respective responsibilities of those management /charged with governance and the auditor in relation to going concern. Refer paragraph 12 to 14 for more detail.
- (d) To include a statement about the auditor's independence to include the fulfilment of relevant ethical requirements; and
- (e) To report a material uncertainty related to going concern under the heading "Material Uncertainty Related to Going Concern" instead of an "Emphasis of Matter" as currently required in ASRE 2410.

### *Description of the auditor's responsibility in relation to going concern in the auditor's review report*

- 12. As a result of the update to ASA 700, the annual auditor's report includes enhanced disclosure about the auditor's responsibilities in relation to going concern. The AUASB and the NZAuASB considered that it was also appropriate to include the description of the responsibility in relation to going concern in the auditor's review report, in order to improve transparency and to avoid misunderstanding from users. However, as discussed above, both boards had different views on how best to describe this.
- 13. The AUASB concluded that the description of the auditor's responsibilities included in the auditor's review report should reflect the procedural requirement of ASRE 2410 paragraph 19 in relation to going concern, to improve transparency and avoid any misunderstanding to the reader of the review report. Based on this the AUASB's ED 01/19 includes the following in

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<sup>1</sup> ASA 700 *Forming an Opinion and Reporting on the Financial Report*

<sup>2</sup> ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

<sup>3</sup> ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

relation to the description of the auditor's responsibility in the auditor's review report, which is a direct reflection and an exact replication of the requirement contained in extant ASRE 2410 paragraph 19:

"We make enquiries about whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When as a result of this enquiry or other review procedures, we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern: (a) we enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and (b) we consider the adequacy of the disclosure about such matters in the financial report."

14. The proposed description of the auditor's responsibilities in relation to going concern included in NZAuASB's ED 2019-1 was more closely aligned to the description in ASA/ISA 700 and was:

"Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern".

15. The AUASB considered that it is not an appropriate time to consider reporting on Key Audit Matters and Other Information in an auditor's review report until the results of the IAASB's Auditor Reporting post implementation review is known. Accordingly, the AUASB did not propose to require the following reporting in the auditor's review report:

- Key audit matters required by ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*;
- An Other Information section required by ASA 720 *The Auditor's Responsibility Relating to Other Information*.

16. The AUASB sought feedback from stakeholders on the above matters.

## **Major Issues raised by Respondents on Exposure**

17. The AUASB received submissions from eight stakeholders representing auditors and professional bodies. All respondents indicated that were supportive of the scope of the update to ASRE 2410, including not requiring communication of key audit matters and an other information paragraph. The following is a summary of the feedback received and how the AUASB responded.

### **NOCLAR**

18. All respondents supported the inclusion of NOCLAR amendments to ASRE 2410, however several respondents requested further inclusion of requirements from ASA 250 as follows:
- To remind the auditor that they may have other ethical responsibilities related to NOCLAR;
  - To include a specific requirement to make enquiries as to NOCLAR;

- To more fully address what the auditor is required to do when they become aware of NOCLAR;
  - To better reflect the communications that the auditor would need to undertake; and
  - To include more explicit documentation requirements related to NOCLAR.
19. The AUASB noted that the objective of this project was to update ASRE 2410 for conforming amendments for consistency with terminology and ensure there was no inconsistency with the NOCLAR requirements. The proposed amendments to ASRE 2410 were based on ASRE 2400 which had been updated by the IAASB for conforming amendments as a result of NOCLAR. The AUASB agreed to make the following changes:
- to include a specific requirement to make enquiries about NOCLAR;
  - additional application material to include guidance when law or regulation may restrict the auditor's communications; and
  - cross reference to ASA 250 for guidance including where there may be additional communication required.

The AUASB do not consider it necessary to include specific documentation requirements above those required in ASRE 2410.

#### *Compliance Frameworks*

20. Whilst respondents were in favour of the inclusion of compliance frameworks explicitly ASRE 2410 many commented that this would be used rarely. Some respondents noted areas where ASRE 2410 still referred to fair presentation only. The AUASB have amended ASRE 2410 as appropriate.

#### *Description of the auditor's responsibility for going concern in the review report*

21. All respondents while supportive of including a description of the auditor's responsibility in relation to going concern in the review report, emphasised the importance of the AUASB and the NZAuASB reaching consensus on this matter and issuing standards with the same requirements. Whilst supportive, the feedback received on the wording included in ED 01/19 and NZAuASB's ED was mixed with neither option receiving widespread support. The feedback was:
- Most stakeholders did not support the description in NZAuASB's ED 2019-1 as an explicit statement that the auditor concludes on going concern basis of accounting and whether a material uncertainty related to going concern exists, is not a requirement in ASRE 2410, and therefore this should not be included in the auditor's responsibilities section of the review report. It was agreed that this would be misleading to readers of the review report, and in excess of the current requirements.
  - Many stakeholders felt that the description included in AUASB's ED 01/19 was not the most effective way of communicating the auditor's responsibility for going concern. complete and that the procedures were not the responsibility. Also some respondents commented that the description did not include the reporting the auditor is required to do if the outcome of the procedures indicates going concern issues which leaves users to draw their own conclusions.
22. During the exposure process the NZAuASB also undertook further consultation with report users and received feedback that both proposed wordings (in the AUASB and NZAuASB's exposure drafts) may exacerbate the expectation gap and therefore neither version of the proposed wording may be appropriate or ideal to achieve the Boards' objectives.

23. The AUASB and the NZAuASB formed a sub-committee to look at ways to consider the feedback received and how to align auditor's review report. The range of scenarios and considerations related to going concern are complex and difficult to summarise in plain English in a concise manner, especially in a review report where there are broader communication challenges related explaining the difference between an audit and a review. Lengthy complex words run the risk of unbalancing the report, but short and concise language may not convey the appropriate message in an environment where going concern matters will be an increasing challenge. The joint sub-committee recommended to both boards to not include the auditor's responsibility in relation to going concern in the review report.
24. Based on this, both the AUASB and NZAuASB agreed to not include the auditor's responsibility in relation to going concern in the review report due to the complexity of going concern in a limited assurance environment, and to avoid the potential for misunderstanding by using 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 the context of the entire auditor's responsibilities and reporting.

*Description of Management's Responsibility for Going Concern in the Review Report*

25. All respondents agreed with how management's responsibility in relation to going concern was described in ED 01/19. However as a result of not including the auditor's responsibility for going concern in the review report both the AUASB and NZAuASB agreed to not include management's responsibility for going concern in the review report.

*Other feedback received*

26. One respondent recommended that the auditor of the entity be defined to clarify that it means the auditor of the entity's annual financial statements. The AUASB considered that the scope of ASRE 2410 was clear in paragraph 3.
27. In outreach in New Zealand and in submissions received by the AUASB, practitioners have queried what the auditor is required to do in the year they are first appointed as the auditor (i.e. have not actually audited the annual financial statements yet). We consider that this is an existing gap in ASRE 2410, and would require clarification or addition of the procedures to be performed, which the AUASB and NZAuASB have agreed are out of scope of the current project.
28. One respondent encouraged the AUASB to consistently apply the relevant reporting changes to the full suite of review standards. The AUASB consider this is beyond the scope of the current project and that no further action is taken ahead of the IAASB post implementation review.
29. Several respondents suggested further enhancements to ASRE 2410 in relation to the procedures an auditor performs in relation to going concern. The AUASB consider this to be beyond the scope of this project.
30. Use of the term management verses those charged with governance to be reconsidered for consistency. The AUASB have concluded that ASRE 2410 shall use the term "management and where appropriate, those charged with governance" consistently throughout.

**Conformity with IAASB's auditing standards**

31. In accordance with its mandates under section 227 of the *ASIC Act 2001* and the Financial Reporting Council's (FRC) Strategic Direction, the AUASB's policy is to adopt the IAASB's auditing standards (ISAs), unless there are compelling reasons not to do so, and to amend the ISAs only when there are compelling reasons to do so. The AUASB's principles of convergence with the ISAs and harmonisation with the New Zealand auditing standards can be found on the AUASB's website:

[http://www.auasb.gov.au/admin/file/content102/c3/Aug14\\_IAASB-NZAuASB\\_Principles\\_of\\_Convergence\\_and\\_Harmonisation.pdf](http://www.auasb.gov.au/admin/file/content102/c3/Aug14_IAASB-NZAuASB_Principles_of_Convergence_and_Harmonisation.pdf)

32. ASRE 2410 has been revised and updated several times since the equivalent ISRE 2410 became operative. Extant ASRE 2410 conforms with International Standard on Review Engagements ISRE 2410. The amendments made to ASRE 2410 add to existing requirements of ISRE 2410 and consequently the AUASB considers that ASRE 2410 conforms with ISRE 2410.

## **Conclusion**

The AUASB voted to approve and issue ASRE 2410 on 12 June 2020.

\* \* \*



# AUASB Board Meeting Summary Paper

**AGENDA ITEM NO.**      **7.0**

**Meeting Date:**              9 June 2020

**Subject:**                      ED ASRS 4400 *Agreed-Upon Procedures Engagements*

**Date Prepared:**              19 May 2020

**Prepared by:**                Rene Herman

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☒ **Action Required**

☐ **For Information Purposes Only**

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**A.      Agenda Item Objectives**

1. To consider responses and disposition of responses received on Exposure Draft 01/20 Proposed Standard on Related Services ASRS *Agreed-Upon Procedures Engagements* (ED 01/20);
2. To provide feedback/input and agree on any compelling reasons that need to be considered in the final ASRS *Agreed-Upon Procedures Engagements* – refer questions to the AUASB contained in section C of this Board Meeting Summary Paper; and
3. To vote to approve ASRS *Agreed-Upon Procedures Engagements* (subject to NZAuASB feedback).

**B.      Background**

1. ED 01/20 was issued in February 2020 with a 60-day comment period initially ending 20 April 2020. Owing to the COVID-19 environment, the AUASB technical group facilitated an extension to this period to 11 May 2020 to give Australian stakeholders additional time to feedback into this process.
2. The AUASB held a webinar on 27 April 2020 taking stakeholders through the main changes from extant ASRS 4400 to the proposed revised standard.
3. The AUASB received submissions/comments from 8 stakeholders<sup>1</sup> - the summary of comments and disposition paper of all submissions is attached at Agenda Item 7.1. Additionally, a copy of all submission letters is attached at Agenda Item 7.3-7.8.

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<sup>1</sup> Deloitte, EY, KPMG, PWC, CPA, CAANZ, IPA, BDO

## C. Matters to Consider

### *Part A - Submissions received*

1. The ATG received 6 formal submissions<sup>2</sup> in relation to ED 01/20. The submissions were largely supportive of the ED. However, there are four matters that the ATG draws the AUASBs attention to these being independence, professional judgement, restriction on use and the term practitioner. These matters are addressed in the paragraphs below.
2. Independence
  - (a) Refer Agenda Item 7.1, Item 1. While CPA/CAANZ is supportive of ED 01/20 in relation to independence, they have requested that the AUASB provide example wording to be used in the engagement letter and the AUP report where the practitioner is required to be independent.

The ATG recommends that the Appendix 1, Illustrative Engagement Letter is amended to reflect example wording for Australian stakeholders.

*Changed example wording for the Engagement Letter (refer Agenda Item 7.2):*

The deleted international wording below will be reflected in a footnote to the engagement letter:

~~In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent.~~

In place of that wording the following will be inserted *(both these options will be included in the example engagement letter – for the practitioner to select which option applies):*

In performing the agreed-upon procedures engagement, we will comply with Accounting Professional & Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110), which does not require us to be independent<sup>3</sup> / In performing the agreed-upon procedures engagement, we will comply with Accounting Professional & Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) including independence equivalent to [audit and review engagements<sup>4</sup>/assurance engagements other than audit and review engagements<sup>56</sup>].

*Example wording for AUP Report (where independence is required)*

No changes to the international needed as the footnote 11 in Illustration 2 to Appendix 2 already contains example wording: We have complied with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) and the independence requirements in Part 4A of the APESB Code.

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<sup>2</sup> CPA and CAANZ did a joint submission and BDO provided a blanked email supporting the Australian Exposure Draft.

<sup>3</sup> This sentence replaces the following international text that has been deleted: In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent.

<sup>4</sup> APES 110 Code of Ethics for Professional Accountants (including Independence Standards) [as referenced in ASA 102], Part 4A

<sup>5</sup> APES 110 Code of Ethics for Professional Accountants (including Independence Standards) [as referenced in ASA 102], Part 4B

<sup>6</sup> This sentence is an addition to the international text and provides example wording where the practitioner and engaging party have agreed independence.

The change to the engagement letter provides example wording of what the requirements of the standard allow, is demonstrative of current Australian practice and would aid practitioners when applying requirements of paragraphs 24(e) and 30(l)(ii). Such a change would promote consistent application of the standard and does not conflict or weaken the international standard.

**Question 1 for the AUASB: Does the AUASB support the proposal above to include, where independence is required, example independence wording in line with extant ASRS in the example engagement letter with no change required to the example AUP report at Appendix 1 and 2 of ED 01/20?**

- (b) Refer Agenda Item 7.1, Item 1. <sup>77</sup> of the 8 respondents to the ED supported the independence and reporting requirements of the ED. IPA does not support the independence requirements and reporting of ED 01/20. IPA considers that the extant ASRS 4400 requirements should be retained.

The ATG notes that the AUASB supported the position in the IAASB ED acknowledging that the findings are capable of being objectively verified, and no opinion is expressed by the practitioner and the APES Code does not require a practitioner performing non-assurance engagements (such as AUP engagements) to be independent and that the Auditing Standards should not create such a requirement. The ATG notes that the new standard does not require independence as a pre-requisite, but the engaging party and practitioner may agree to such independence or laws/regulations may require it. On this basis, the ATG does not consider there to be a compelling reason to amend ISRS 4400 and does not recommend a change from the international standard.

**Question 2 for the AUASB: Does the AUASB support the ATG recommendation to not make any Australian amendments to ISRS 4400 in relation to the independence requirements in the standard?**

### 3. Professional Judgement

- (a) Refer Agenda Item 7.1, Item 13. <sup>78</sup> of the 8 respondents to the ED support conforming with the international standard in relation to professional judgment. EY does not believe that the definition of professional judgement or the discrete requirement to apply professional judgement appropriately reflects the role professional judgement plays in an AUP engagement. EY considers that the execution of procedures in an AUP engagement should not involve professional judgement. EY believes that including a definition, as well as a requirement to apply professional judgement in “conducting an agreed upon procedures engagement”, has the unintended consequence of conveying the exact opposite (i.e. that professional judgement is required in performing the procedures). EY believes that both the definition of professional judgement and the requirement in paragraph 18 should be removed from ED 01/20. They do however agree that professional judgement is applied in various aspects of an AUP engagement. In particular, professional judgement can be critical to engagement acceptance decisions (i.e., to make the judgements required by paragraph 21 and 22(c) of ED 01/20). EY also agrees with the other examples in paragraph A22 of when professional judgement may play a role. Instead, the EY disagreement is with the approach taken to require the application of professional judgement holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. EY believe a better

<sup>77</sup> KPMG, PWC, Deloitte, EY, BDO, CAANZ/CPA

<sup>78</sup> KPMG, PWC, Deloitte, BDO, CAANZ/CPA

approach, which would be less prone to the unintended consequences they have described, is to specifically emphasise the role of professional judgement in the application material where its application is of most relevance and importance.

The ATG agrees that the ED is as not as clear as the extant ASRS 4400 concerning the prohibition on the application of professional judgement during the performance of procedures in an AUP engagement. In its final decisions on ISRS 4400, the IAASB reaffirmed that professional judgment is not suspended in an AUP engagement. However, the IAASB acknowledged that professional judgment may be limited when performing the agreed-upon procedures. It is the ATG's view that the requirements and application material in the ED, while more subtle in this respect, achieves the same outcome. The ATG considers that the application material in A22 is clear as to when professional judgement would be expected to be exercised in the conduct of the engagement and this is reiterated in A23. On this basis, the ATG does not consider there to be a compelling reason to amend ISRS 4400 and does not recommend a change from the international standard.

**Question 3 for the AUASB: Does the AUASB support the ATG recommendation to not make any Australian amendments to ISRS 4400 in relation to the definition of professional judgement or the requirement in paragraph 18 of the exposure draft?**

4. Restriction on use/distribution

- (a) Refer Agenda Item 7.1, Item 9. 6<sup>9</sup> of the 8 respondents to the ED support the international ED in relation restriction on use/distribution. Both Deloitte and IPA consider that there should be a restriction on distribution paragraph required in Proposed ASRS 4400 similar to that of extant ASRS 4400. Deloitte notes that the reason the IAASB does not require a restriction on use/distribution paragraph is because some jurisdictions do not allow these. Based on this decision largely being a jurisdictional one and consistent with the response that the AUASB made to the IAASB on proposed ED-ISRS 4400, Deloitte considers that the AUASB should follow the extant standard on this matter.

The ATG notes that ED 4400 leaves the decision to restrict use or distribution open to jurisdictions. To provide guidance on factors that the practitioner may consider in deciding whether to restrict the AUP report and to address other suggestions relating to restrictions on use or distribution of the AUP report, the IAASB added the following application material paragraphs to the final standard:

- Material in paragraph A53 to clarify that in some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures but not its use; and
- Paragraph A54 to provide guidance on factors that the practitioner may consider in deciding whether to restrict the distribution or use of the AUP report.

Additionally, the proposed standard requires the report to contain an identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; as well as a statement that the

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<sup>9</sup> KPMG, PWC, Deloitte, BDO, CAANZ/CPA

practitioner makes no representation on the appropriateness of the procedures. On this basis, the ATG does not propose putting an amendment forward to the AUASB.

- (b) Refer Agenda Item 7.1, Item 9. While KPMG supports the proposed standard, they consider that it would be helpful for the standard to emphasise that the statement *that the agreed-upon procedures report may not be suitable for another purpose*, be sufficiently prominent, e.g. by including a heading, and language that makes clear that this is a “warning”.

The ATG notes that in the example AUP report in Appendix 2 to the standard, this statement is upfront in the report and as such the ATG considers this statement to be prominent in the report. KPMG has not considered this matter to be compelling or fundamental (but rather considered helpful). On this basis, the ATG does not propose any changes be put forward to the AUASB.

- (c) Refer Agenda Item 7.1, Item 9. The IPA believes the changes to independence requirements together with dropping the guidance in the extant Appendices 1 and 2 (differences between an assurance engagement and AUP engagement), and the inadequate engagement acceptance criteria exacerbate our concerns with adoption of IFRS 4400. As such, the IPA does not support the changes on restriction of distribution proposed by ISRS 4400.

The ATG notes that ED 4400 leaves the decision to restrict use or distribution open to jurisdictions. To provide guidance on factors that the practitioner may consider in deciding whether to restrict the AUP report and to address other suggestions relating to restrictions on use or distribution of the AUP report, the IAASB added the following application material paragraphs to the final standard:

- Material in paragraph A53 to clarify that in some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures but not its use; and
- Paragraph A54 to provide guidance on factors that the practitioner may consider in deciding whether to restrict the distribution or use of the AUP report.

Additionally, the proposed standard requires the report to contain an identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; as well as a statement that the practitioner makes no representation on the appropriateness of the procedures. On this basis, the ATG does not propose putting an amendment forward to the AUASB.

**Question 4 for the AUASB: Does the AUASB support the ATG recommendation to not make any Australian amendments to ISRS 4400 in relation to the restriction of use in the exposure draft?**

## 5. Term practitioner

Refer Agenda Item 7.1, Item 16. 6<sup>10</sup> of the 8 respondents did not raise concern with the term practitioner as used in the ED. CPA/CAANZ raised concern with the definition of the term practitioner. They recommend that the AUASB reconsider either the definition of “practitioner” or

<sup>10</sup> KPMG, Deloitte, PWC, EY, BDO, IPA

its application guidance to make it clear that it can also cover those in industry, commerce and the public sector who wish to undertake these engagements, consistent with ASRS 4400's current definition of "assurance practitioner". However, this should not be done by reusing the term "assurance practitioner" which they agree is unhelpful in a non-assurance standard.

The ATG considers that the definition of practitioner in ED 01/20 is wide enough to cover those who are not 'accountants'. Furthermore, the term engagement partner is defined in this ED and is also a broader definition. The ATG acknowledges that the previous definition of practitioner\* as defined in the IAASB and AUASB glossary is limiting. Since ASRS 4400 is the only AUASB standard where the term practitioner is used, the ATG recommends that the definition of practitioner as defined in the glossary is updated with this new definition#. Additionally, the ATG recommends one of the following:

- a. Australian specific application material to the definition of practitioner – this would be included as Aus A13.1:

[Aus] A13.1 The individual(s) conducting the engagement may be a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.

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\* professional accountant in public practice

# "the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used".

- b. Explanation similar to (a) above but not in the body of the standard, but rather in the basis of conclusions document.

**Question 5 for the AUASB: Which recommendations does the AUASB support:**

- **Removal of existing definition of practitioner from AUASB Glossary**
- **Insert Australian application material to the definition of practitioner in revised ASRS 4400; or**
- **Explain in the basis of conclusions that practitioner is wider than professional accountant in public practice.**

***Part B – NZAuASB***

1. The NZAuASB intend to issue final ISRS 4400 as an ED in NZ in June, with a 90-day comment period ending early September.
2. The ATG will seek to understand whether the NZ ED process raises any issues.

***Part C – “Compelling Reasons” Assessment***

1. For AUASB consideration – as outlined in this paper – refer questions in Section C part A, Matters to Consider.

**D. AUASB Technical Group Recommendations**

1. Refer Section C, part A for ATG recommendations.

**E. Way forward**

2. ATG to liaise with NZAuASB staff on their comments received, to understand whether their stakeholders raise any matters for further consideration. NZAuASB will be exposing the international standard in June with an exposure period ending beginning of September 2020.
3. In order to meet the AUASB/NZAuASB Principles of Convergence policy, the AUASB would wait for NZAuASB to finalise their position on ED-ISRS 4400 before issuance of the final standard in Australia. I.e.: AUASB board approval and release of the standard would be subject to NZAuASB deliberations expected in September 2020 and final clearance from the AUASB Chair.

**F.     Material Presented**

Agenda Item 7.0	AUASB Board Meeting Summary Paper
Agenda Item 7.1	Comments and Disposition Paper – ED 01/20
Agenda Item 7.2	ASRS 4400
Agenda Item 7.3	KPMG letter
Agenda Item 7.4	Deloitte letter
Agenda Item 7.5	PWC letter
Agenda Item 7.6	EY letter
Agenda Item 7.7	IPA letter
Agenda Item 7.8	CPA/CAANZ letter

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# AUASB Comments Received and Proposed Disposition Paper

<b>AGENDA ITEM NO.</b>	<b>7.1</b>		
<b>Meeting Date:</b>	9 June 2020		
<b>Subject:</b>	Comments received on Exposure Drafts – ED 01/20 Proposed Standard on Related Services ASRS 4400 <i>Agreed-Upon Procedures Engagements</i>		
<b>Date Prepared:</b>	14 May 2020		
<b>Document Type:</b>	Exposure Draft	<b>Document Number:</b>	ED 01/20
<b>Proposed Title:</b>	ED 01/20 Proposed Standard on Related Services ASRS 4400 <i>Agreed-Upon Procedures Engagements</i>		

	Page Number
<b>EXHIBIT 1:</b> Comments received on Exposure Draft - ED 01/20 Proposed Standard on Related Services ASRS 4400 <i>Agreed-Upon Procedures Engagements</i> .....	3
<b>EXHIBIT 2:</b> Other comments raised .....	35

*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.*

**LISTING OF RESPONDENTS**

<b>Short Form Name</b>	<b>Name</b>	<b>Date Received</b>
EY	Ernst & Young	7 May 2020
CA and CPA	CA ANZ and CPA Australia Joint Submission	11 May 2020
KPMG	KPMG	11 May 2020
Deloitte	Deloitte Touche Tohmatsu Limited	11 May 2020
PwC	PricewaterhouseCoopers	12 May 2020
IPA	Institute of Public Accountants	12 May 2020

**EXHIBIT 1: Comments received on Exposure Draft - ED 01/20 Proposed Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements***

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
1	Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?	<p>EY (Question 1 to 4)</p> <p>We agree with there not being a precondition for the practitioner to be independent when performing Agreed Upon Procedures (AUP) engagements. Notwithstanding the fact that independence may not be required by the relevant ethical requirements, we agree that the practitioner's independence may be required or expected as a term of the engagement. We do not see a need to maintain the approach in extant ASRS 4400. We believe that the independence approach adopted in ED 01/20 reflects the spectrum of AUP engagements whereby some but not all scenarios warrant the practitioner to be independent. There are no other independence pre-condition options that are not covered by questions 1 and 2 above.</p>	Supportive of the ED in the current form.	N
		<p>CA and CPA</p> <p>We agree that an independence requirement does not necessarily provide value to users of an AUP engagement and should only be applied if it is required by them. In our view, requiring practitioners to be, and be seen to be, independent in all circumstances imposes unnecessary and costly preconditions that could preclude the provision of AUP engagements to clients where demonstrable independence benefits are less clear.</p> <p>Notwithstanding this, we are aware that an independence requirement, equivalent to that applied to "other assurance engagements" by paragraph 17 of the extant ASRS 4400, is well supported within Australia as a means of adding value and credibility to these engagements. We also expect that many users and engaging parties will continue to specify independence requirements consistent with the extant standard. The ED adequately</p>	<p>Supportive of the ED in the current form.</p> <p>Suggested implementation guidance or possible example in the report of independence wording</p> <p>REFER JUNE 2020 BOARD MEETING SUMMARY PAPER – Section C, Part A, paragraph 2(a).</p>	

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Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
		<p>allows for this choice and the proposed disclosures surrounding independence are simple and clear. Therefore, we agree with the AUASB's view that this change does not provide the AUASB with a compelling reason to amend the international requirements.</p> <p>While we support the approach adopted in the ED, we also recommend that the AUASB include example independence wording suitable for use in the Australian environment in its material supporting the implementation of the revised standard. This would ensure that the standard continues to provide a clear framework for practitioners when users and engaging parties still wish independence requirements to be applied for an AUP engagement. It would also assist practitioners with the consistent application of independence when required, thereby assisting to ensure there is no perceived decline in quality arising from the implementation of the revised standard.</p> <p>Such wording, drawn from the extant ASRS 4400 and updated for the current APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i>, should address both the engagement letter and AUP report and support decisions to adopt either an independence equivalent to "other assurance engagements" or modified independence for an AUP engagement.</p>		
		<p>KPMG</p> <p>We support ED 01/20 not requiring independence for an AUP engagement. This allows for much broader use of this style of engagement which reflects current demand in the Australian market.</p>	Supportive of the ED in the current form.	N
		<p>Deloitte</p>	Supportive of the ED in the current form.	N

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
		We support not having an independence requirement for an AUP as this aligns the Australian standard with the International standard.		
		<p>PwC</p> <p>We support the proposed standard not requiring independence for an AUP engagement, as these engagements do not provide any assurance, and should therefore not broadly require a higher level of independence than other non-assurance engagements.</p> <p>In our experience, AUP engagements specifically requiring independence of the practitioner are quite rare.</p>	Supportive of the ED in the current form.	N
		<p>IPA</p> <p>While the IPA believes there is no theoretical requirement for the independence in AUP engagements (subject to appropriate disclosure and restrictions on use), the IPA considers as the objective of many AUP engagements is to have a third party to undertake procedures and make findings there is an implicit value attributed to the perceived independence of that third party. The IPA is concerned without restrictions on distribution it is inappropriate to omit an independence requirement.</p>	<p>The proposed standard allows for the practitioner to restrict use or distribution. Additionally, the standard contains a requirement that the report contains a statement identifying the purpose of the report and that the report may not be suitable for another purpose.</p> <p>The AUASB supported the position in the IAASB ED acknowledging that the</p>	

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
			findings are capable of being objectively verified, and no opinion is expressed by the practitioner and the APES Code does not require a practitioner performing non-assurance engagements (such as AUP engagements) to be independent and that the Auditing Standards should not create such a requirement.  REFER JUNE 2020 BOARD MEETING SUMMARY PAPER Section C, Part A, paragraph 2(b).	
2	Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other	CA and CPA  No – we consider that independence requirements should not be made mandatory and so support the approach adopted by the ED and ISRS 4400. However, as we noted in our response to Question 1, we recognise that many users and engaging parties may wish to continue to adopt the extant ASRS 4400 approach to independence voluntarily. Therefore, we encourage the AUASB to provide additional guidance material that would support this choice and to ensure consistency of its application.	Supportive of the ED in the current form.	N

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
	assurance engagements', unless the engaging party has explicitly agreed to modified independence requirements?	<p>KPMG</p> <p>Given that in an AUP engagement the findings are capable of being objectively verified, and no opinion is expressed by the practitioner, we do not believe it is necessary to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to 'other assurance engagements' unless the engaging party has explicitly agreed to modified independence requirements.</p>	Supportive of the ED in the current form.	N
		<p>Deloitte</p> <p>Our preference is not to maintain the approach in the extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to 'other assurance engagements', unless the engaging party has explicitly agreed to modified independence requirements.</p> <p>Refer to our response to Question 1 above.</p>	Supportive of the ED in the current form.	N
		<p>PwC</p> <p>No, for the reasons referred to in question 1 above.</p>	Supportive of the ED in the current form.	N
		<p>IPA</p> <p>The IPA supports the retention of the current ASRS 4400 independence requirement. However, the IPA believes the current independence reporting requirements should be enhanced to explain when independence is waived by the engaging party(s) and why the</p>	See commentary under Item 1.	

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
		nature of the relationship impairing independence, including details of any conflicts of interest.		
3	Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.	CA and CPA  Not applicable as we do not support an independence precondition.	Supportive of the ED in the current form.	N
		KPMG  No.	Supportive of the ED in the current form.	N
		Deloitte  We have no other independence pre-condition options other than those already addressed in Questions 1 and 2 above.	Supportive of the ED in the current form.	N
		PwC  None noted.	Supportive of the ED in the current form.	N
		IPA  As noted in our response to Question 2, the IPA believes that enhanced reporting of threats to independence including disclosure of conflicts of interest should be disclosed, where an engaging party waives independence requirements.	See commentary under Item 1.	
4	If stakeholders do not support ED 01/20 not requiring independence	CA and CPA  Not applicable as we do not support an independence precondition.	Supportive of the ED in the current form.	N

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
	for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?	KPMG  N/A	Supportive of the ED in the current form.	N
		Deloitte  In our view there are no compelling reasons which require modification to ED 01/20 with respect to not requiring independence for an AUP engagement.	Supportive of the ED in the current form.	N
		PwC  Not applicable.	Supportive of the ED in the current form.	N
		IPA  The IPA believes there are compelling reasons not to adopt the ISRS 4400 without making significant amendments in relation to independence as noted in our covering letter and responses to Questions 1-3.	See commentary under Item 1.	
5	Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?	EY (Question 5 to 8)  When the practitioner is independent, we are supportive of the new requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis thereof. We strongly believe that independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement. When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be	Supportive of the ED in the current form.	N

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
		<p>required to make an independence determination and are supportive of the new requirement for the practitioner to include in the AUP report a statement that there are no independence requirements with which the practitioner is required to comply. We have this view not only because of the complexity that may be involved in making a determination of independence, but also because, in these circumstances, the independence requirements that the practitioner is to measure their independence against may not be known or defined. In particular, the APES 110 Code of Ethics does not define independence in the context of an AUP engagement. Accordingly, when the APES 110 Code of Ethics comprises the relevant ethical requirements for an AUP engagement, we do not believe that it would be appropriate for the practitioner to be required or otherwise expected to make an independence determination. There are no other independence reporting options that are not covered by questions 5 and 6.</p>		
		<p>CA and CPA</p> <p>We support the inclusion of an appropriate statement about independence in the AUP report and believe that the ED's proposals set out at paragraph 30(l) are adequate for this purpose.</p> <p>This is because we believe that a practitioner should not be required to make an independence determination when they are not required to be, or have not agreed to be, independent. Such a determination involves the practitioner in unnecessary work which serves no purpose. A statement that the engagement is not subject to independence requirements should be sufficient to guide users of the report in this matter.</p> <p>However, if the practitioner is required to be or has agreed to be independent, such an assessment is necessary. Since these requirements will have been imposed by the engaging party or other users for a reason,</p>	<p>Supportive of the ED in the current form. Noted comments re independence examples – refer response to Item 1.</p>	<p>N (already addressed in item 1)</p>

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
		<p>it is important for the report to disclose the nature of the requirements against which this independence has been assessed and that these requirements have been complied with. Only then can the report adequately communicate the additional perceived credibility that the engaging party or other users are seeking to obtain by including independence requirements.</p> <p>To this end, we recommend that the AUASB include guidance on wording for the most common independence options users and engaging parties may choose in its material supporting the implementation of the revised standard, as discussed in our responses to Questions 1 and 2.</p>		
		<p>KPMG</p> <p>We support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent. This provides transparency to the market that the practitioner has considered independence requirements where relevant to the engagement.</p> <p>We support the statement used in 30(l) (i) when there are no independence requirements with which the practitioner is required to comply.</p>	Supportive of the ED in the current form.	N
		<p>Deloitte</p> <p>We support the proposed statements in paragraph 30(l)(i) and 30(I)(ii).</p>	Supportive of the ED in the current form.	N
		<p>PwC</p> <p>Yes, we support the statement being included in the AUP report. In the majority of engagements where independence is not required, making a</p>	Supportive of the ED in the current form.	N

Item No.	Question	Respondent Comment	Commentary	Change to be made to Doc? Y/N
		statement in the report that no independence is required provides clarification to the user and is consistent with the statement in the report that no assurance is provided in the engagement.		
		Where independence is required or it has been agreed, it is useful to draw attention in the AUP report to the reason for that independence requirement and to link to what the relevant independence requirements are.		
		IPA As noted in our response to Questions 2-3 the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.	See commentary under Item 1.	
6	If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements	CA and CPA Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.	Supportive of the ED in the current form.	N
		KPMG N/A	Supportive of the ED in the current form.	N
		Deloitte Refer to Question 2 above, we do not support maintaining the approach adopted in extant ASRS 4400 in relation to independence.	Supportive of the ED in the current form.	N

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	equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?	PwC Not applicable.	Supportive of the ED in the current form.	N
		IPA As noted in our response to Question 5, the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.	See commentary under Item 1.	N
7	Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.	CA and CPA Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.	Supportive of the ED in the current form.	N
		KPMG No.	Supportive of the ED in the current form.	N
		Deloitte We do not consider that there are other independence reporting options.	Supportive of the ED in the current form.	N
		PwC None noted.	Supportive of the ED in the current form.	N

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		<p>IPA</p> <p>As noted in our response to Question 5, the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.</p>	See commentary under Item 1.	
8	If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?	<p>CA and CPA</p> <p>Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.</p>	Supportive of the ED in the current form.	N
		<p>KPMG</p> <p>N/A</p>	Supportive of the ED in the current form.	N
		<p>Deloitte</p> <p>We support ED 01/20 pertaining to this matter and do not consider there to be compelling reasons to modify ED 01/20.</p>	Supportive of the ED in the current form.	N
		<p>PwC</p> <p>No compelling reasons identified.</p>	Supportive of the ED in the current form.	N
		<p>IPA</p> <p>The IPA believes there are compelling reasons not to adopt the ISRS 4400 without making significant amendments in relation to</p>	See commentary under Item 1.	

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		independence reporting as noted in our covering letter and responses to Questions 1-3 and Question 5.		
9	Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?	<p>EY (Question 9 to 12)</p> <p>We agree with the removal of the requirement to restrict the report and to leave the determination as to whether restrictions are necessary to the practitioner, after considering the facts and circumstances of the engagement. We also believe that the application material in paragraph A54 is useful to assist the practitioner in making this determination. We do not see a requirement to maintain the approach exactly as is in extant ASRS 4400 as the outcome of the approach in ED 01/20 aligns to that in extant ASRS 4400 and to the extent possible we should harmonise with the current International Standard on Related Services ISRS 4400. There are no other restriction on use options that are not covered by questions 9 and 10 above.</p>	Supportive of the ED in the current form.	N
		<p>CA and CPA</p> <p>In our separate submissions to the IAASB's ED on ISRS 4400 revised we both supported the approach that the international standard should permit, but not require, practitioners to impose report restrictions as a pragmatic approach to the need for an internationally workable standard. We also identified that without a report restriction, the report should provide a clear statement of purpose in order to ensure that the report was only relied upon by those for whom it was prepared.</p> <p>Since the proposals in the ED allow for the practitioner to determine what restrictions are appropriate to the particular circumstances of the engagement and require the report to identify a clear statement of the purpose of the engagement, we support the proposals.</p>	Supportive of the ED in the current form.	N

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		<p>However, we also acknowledge that the established practice in Australia under paragraph 42 of extant ASRS 4400 is for report restrictions to be commonly applied for professional indemnity reasons, a situation that we do not see as likely to change. Since this option is permitted under the proposed standard, we agree that no compelling reasons exist to amend the international standard for adoption in Australia.</p> <p>We acknowledge that the ED already provides some guidance on imposing report restrictions, and the IAASB may provide more in its forthcoming implementation guidance. Therefore, we encourage the AUASB to consider this guidance and, if necessary, supplement it with example wording from the extant ASRS 4400. Such guidance would promote consistency and assist to ensure that there is no perceived decline in quality from the implementation of the revised standard.</p>		
		<p>KPMG</p> <p>Yes, we are generally supportive of ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose.</p> <p>The requirement to identify all intended users at the outset of the engagement can sometimes be challenging, and limits the usefulness of the AUP report to the client if they are unable to provide it to other parties after the engagement terms have been agreed.</p> <p>We also highlight that the statement that the report may not be suitable for another purpose is derived from ISA 800 <i>Special Considerations – Audits of Financial Statements Prepared in Accordance with Special</i></p>	<p>Mostly supportive of the ED in the current form.</p> <p>The standard contains a requirement that the report contains a statement identifying the purpose of the report and that the report may not be suitable for another purpose. While the ATG acknowledge KPMG's point of more prominence to this requirement in the report, the example</p>	N

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		<p><i>Purpose Frameworks</i>, in which the equivalent requirement is to include an Emphasis of Matter paragraph. Whilst such a paragraph would not be appropriate in an AUP report, as no opinion/conclusion is provided, it would be helpful for the standard to emphasise that the statement must be sufficiently prominent, e.g. to include a heading, and language that makes clear that this is a “warning”.</p>	<p>report in Appendix 2 to the standard has this statement upfront in the report and as such the ATG considers this statement to be prominent in the report. KPMG has not considered this matter to be compelling or fundamental (considered helpful). On this basis, the ATG does not propose any changes be put forward to the AUASB.</p> <p>REFER JUNE 2020 BOARD MEETING SUMMARY PAPER Section C, Part A, paragraph 4(b).</p>	
		<p>Deloitte</p> <p>We do not support the ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed.</p> <p>We acknowledge that the AUASB’s policy is to adopt the IAASB’s international standards, unless there are compelling reasons not to do so; and to amend the standards only when there are compelling reasons to do</p>	<p>ED 4400 leaves the decision to restrict use or distribution open to jurisdictions</p> <p>To provide guidance on factors that the practitioner may</p>	N

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		<p>so. However we recognise that in the Explanatory Memorandum to Exposure Draft 01/20: <i>Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements</i> that the AUASB considered in their submission to the IAASB, that the use of an AUP report should be restricted to parties that have agreed to the procedures performed or have been identified as intended users in the report. We continue to support this position as nothing has fundamentally changed that would suggest that restricting the use of the AUP report is no longer applicable.</p> <p>We however note that the rationale for the IAASB not having this restriction in the standard is because in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution and in other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use.</p> <p>Considering this reason and the AUASB's original position, we believe that the Australian current practices provide the compelling reason to amend the proposed standard.</p> <p>We also highlight that the precondition of an AUP engagement is that the procedures being performed have been agreed by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. In practice, for the practitioner to understand the purpose and therefore be able to conclude on whether the engagement is fit for purpose, the key is understanding the intended users and what they expect to get out of the engagement.</p> <p>The paragraphs below in ED 01/20 appear to support the need for restriction of use as requirement:</p>	<p>consider in deciding whether to restrict the AUP report and to address other suggestions relating to restrictions on use or distribution of the AUP report, the IAASB added:</p> <ul style="list-style-type: none"> <li>Material in paragraph A53 to clarify that in some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures but not its use; and</li> </ul>	

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		<ul style="list-style-type: none"> <li>Paragraph 4 of ED 01/20 states that, “In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the <b>engaging party</b> has acknowledged that the procedures performed are appropriate for the purpose of the engagement. <u>The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The <b>engaging party</b> and <b>other intended users</b> consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.</u></li> <li>Paragraph 13 (a) defines agreed-upon procedures as procedures that <u>have been agreed to by the <b>practitioner</b> and the <b>engaging party</b> (and if relevant, other parties).</u> The application guidance in paragraph A10 of ED 01/20 states that “In some circumstances, <u>the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.</u>”</li> <li>Paragraph A54 (bullet one and two), will be applicable for most engagements and therefore most practitioners will end up with a restriction of distribution or use.</li> </ul> <p>In the paragraphs above, it is clear that an AUP engagement is for a specific purpose and intended audience. It is then expected that the recipient and/or user of the AUP report are required to understand the terms of the engagement. This can only happen if either they were a party to the engagement letter or before they receive a copy and rely on the report, they understood that the engagement was for a particular purpose and may not be fit for their purpose. We believe therefore, that the better approach is to directly call out the restriction on use, rather than rely on</p>	<ul style="list-style-type: none"> <li>Paragraph A54 to provide guidance on factors that the practitioner may consider in deciding whether to restrict the distribution or use of the AUP report.</li> </ul> <p>On the basis of the above, the ATG does not propose putting an amendment forward to the AUASB.</p> <p>REFER JUNE 2020 BOARD MEETING SUMMARY PAPER Section C, Part A, paragraph 4(a).</p>	

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		the more subtle or indirect approach adopted by the IAASB as we understand the reason for them not taking the direct approach.		
		<p>PwC</p> <p>We support ED01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed for the following reasons:</p> <ul style="list-style-type: none"> <li>• The approach provides more flexibility for circumstances where it is impractical to obtain the agreement for the procedures to be performed from all parties (other than the engaging party) upfront;</li> <li>• The ED still provides the option of including a restriction in use where the practioner believes there is a need for such restriction;</li> <li>• The ED also provides the option of requiring parties other than the engaging party to agree both the procedures to be performed and to confirm that the procedures are appropriate for the purpose of the engagement;</li> <li>• In addition, the report includes: <ul style="list-style-type: none"> <li>○ A full description of the procedures that have been performed;</li> <li>○ A statement that the engaging party (and other parties, where relevant) have acknowledged that the procedures are appropriate for the purpose of the engagement;</li> <li>○ A statement that the practitioner makes no representation on the appropriateness of the procedures.</li> </ul> </li> </ul>	Supportive of the ED in the current form.	N

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		In practice, AUP reports are very often required to be shared/used by parties who have not agreed the procedures upfront. The approach in the ED therefore provides adequate flexibility to the practitioner in these circumstances.		
		<p>IPA</p> <p>The IPA believes the changes to independence requirements together with dropping the guidance in the extant Appendices 1 and 2, the inconsistent guidance in paragraph A2 of the IFRS 4400 and the inadequate engagement acceptance criteria exacerbate our concerns with adoption of IFRS 4400.</p> <p>As such, the IPA does not support the changes on restriction of distribution proposed by ISRS 4400.</p>	<p>- requirement for the report to contain a statement identifying the purpose of the report and that the report may not be suitable for another purpose.</p> <p>- ED 4400 leaves the decision to restrict use or distribution open to jurisdictions</p> <p>On the basis of the above, the ATG does not propose putting an amendment forward to the AUASB.</p> <p>REFER JUNE 2020 BOARD MEETING SUMMARY PAPER Section C, Part A, paragraph 4(a) and 4(c).</p>	

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10	Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.	CA and CPA  No, we consider that report restrictions do not need to be mandatory and support the approach taken by the ED. However, as we noted in our response to Question 9, we recognise that many Australian practitioners may wish to continue to adopt the extant ASRS 4400 approach to report restrictions voluntarily. Therefore, we encourage the AUASB to provide, if the IAASB guidance does not, additional material to support practitioners choosing to restrict the use of their AUP report.	Supportive of the ED in the current form.	N
		KPMG  We prefer that the mandated restriction paragraph in the AUP report is removed for the reasons set out in response to question 9 above.	Supportive of the ED in the current form.	N
		Deloitte  Yes, see our response to Question 9.	Refer commentary under item 9.	
		PwC  No. For the reasons described in question 9 above, we believe that the more flexible approach is preferable.	Supportive of the ED in the current form.	N
		IPA  The IPA would support the retention on the extant ASRS 4400 in relation to restriction of use.	Refer commentary under item 9.	

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11	Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.	CA and CPA  Not applicable, as we support the approach taken by the ED as detailed in our response to Question 9.	Supportive of the ED in the current form.	N
		KPMG  No.	Supportive of the ED in the current form.	N
		Deloitte  We are not aware of any other restrictions not already covered by Questions 9 and 10.	N/A	
		PwC  None noted.	Supportive of the ED in the current form.	N
		IPA  The IPA has no comments on any other restriction on use.	N/A	
12	If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider	CA and CPA  Not applicable, as we support the approach taken by the ED as detailed in our response to Question 9.	Supportive of the ED in the current form.	N
		KPMG  N/A	Supportive of the ED in the current form.	N

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	there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?	<p>Deloitte</p> <p>Based on our response to Question 9, we believe there are compelling reasons to modify ED 01/20 to incorporate a requirement for practitioners to restrict the use of the AUP report to parties that have agreed to the procedures to be performed.</p>	Refer Item 9 above	
		<p>PwC</p> <p>Not applicable.</p>	Supportive of the ED in the current form.	N
		<p>IPA</p> <p>As noted in our covering letter, the IPA has serious concerns with the potential misuse of AUP reports.</p> <p>We believe the changes to independence requirements, together with dropping the guidance in the extant Appendices 1 and 2, the inconsistent guidance in paragraph A2 of the IFRS 4400 and the inadequate engagement acceptance criteria will exacerbate these concerns.</p> <p>These concerns are compounded by inadequate independence reporting requirements. As such the IPA believes there are compelling reasons to modify ISRS 4400.</p>	Comments noted above in Item numbers 1 and 9.	
13	Do stakeholders support the way in which the exercise of professional judgement is dealt with in	<p>EY</p> <p>No, we do not believe that the definition of professional judgement or the discrete requirement to apply professional judgement appropriately</p>	The ATG agrees that the ED is as not as clear as the extant ASRS 4400 concerning the	

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	ED 01/20? If not, why not?	reflects the role professional judgement plays in an AUP engagement. The execution of procedures in an AUP engagement should not involve professional judgement. We believe that including a definition, as well as a requirement to apply professional judgement in “conducting an agreed upon procedures engagement”, has the unintended consequence of conveying the exact opposite (i.e. that professional judgement is required in performing the procedures). We therefore believe that both the definition of professional judgement and the requirement in paragraph 18 should be removed from ED 01/20. We however agree that professional judgement is applied in various aspects of an AUP engagement. In particular, professional judgement can be critical to engagement acceptance decisions (i.e., to make the judgements required by paragraph 21 and 22(c) of ED 01/20). We also agree with the other examples in paragraph A22 of when professional judgement may play a role. Instead, our disagreement is with the approach taken to require the application of professional judgement holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasise the role of professional judgement in the application material where its application is of most relevance and importance.	prohibition on the application of professional judgement during the performance of procedures in an AUP engagement. Nevertheless, it is the ATG’s view that the requirements in the ED, while more subtle in this respect, achieves the same outcome.  REFER JUNE BOARD MEETING SUMMARY PAPER Section C, Part A, paragraph 3(a).	
		CA and CPA  We do not consider that the ED is as clear as the extant ASRS 4400 concerning the prohibition on the application of professional judgement during the performance of procedures in an AUP engagement. Nevertheless, we support harmonisation with the IAASB standard and accept the AUASB’s view that the requirements in the ED, while more subtle in this respect, can achieve this prohibition.	Supportive of the ED in the current form while noting that that the AUASB should clearly explain (maybe in the BOC) that the use of professional judgement in the performance of	N

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		<p>However, since application of professional judgement in the performance of procedures is a critical element that distinguishes AUP engagements from assurance engagements, we recommend that the AUASB encourage the IAASB to develop clear guidance material on this matter to assist in ensuring consistent implementation of the revised standard.</p> <p>This guidance could include clarification of the documentation needed to identify where and why the practitioner exercised professional judgment as a practical means of drawing more attention to the need to ensure that it is not exercised in the performance of the procedures.</p> <p>If the forthcoming IAASB guidance does not provide additional clarity, then the AUASB should consider supplementing it to clearly explain that the prohibition on the use of professional judgement in the performance of procedures remains the same between the extant and revised standards.</p>	procedures remains the same between the extant and revised standards.	
		<p>KPMG</p> <p>Yes, we support the way in which the exercise of professional judgement is dealt with in ED 01/20.</p>	Supportive of the ED in the current form.	N
		<p>Deloitte</p> <p>We support how the exercise of professional judgement is dealt with in ED 01/20. We note that paragraph 18 of ED 01/20 requires that “the practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, considering the circumstances of the engagement”.</p> <p>Our view is that the professional judgement to be applied in the conduct of the engagement would be limited, and we note that paragraph A22 is clear</p>	Supportive of the ED in the current form.	N

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		in providing appropriate guidance on what the exercise of professional judgement would entail, and would be limited to, in relation to the conduct of the AUP engagement.  As paragraph A22 does not suggest that practitioners should use professional judgement in modifying how procedures are conducted, we accept that practitioners performing the same procedures should still get the same results, notwithstanding the broader requirement of paragraph 18.		
		PwC  We agree with the way in which professional judgement is dealt with in the ED. In particular, the examples provided of how professional judgement would be applied during the various phases of the engagement are very useful.	Supportive of the ED in the current form.	N
		IPA  The IPA has no comment on the way exercise of professional judgement is dealt with in ED 01/20.	N/A	
14	Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or	EY  As far as we can see, applicable laws and regulations have been appropriately addressed in the proposal standard. We are not aware of any references to relevant laws or regulations that have been omitted.	No further comments	
		CA and CPA	No further comments	

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	regulations that have been omitted?	We are not aware of any relevant laws and regulations that have not been properly addressed.		
		KPMG We are not aware of any relevant laws or regulations that have been omitted.	No further comments	
		Deloitte None that we are aware of.	No further comments	
		PwC None noted	No further comments	
		IPA The IPA is not aware of any reference to law or regulation that has been omitted from the proposed revised standard.	No further comments	
15	Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or	EY We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	No further comments	
		CA and CPA	No further comments	

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	may conflict with the proposed standard?	We are not aware of any relevant laws and regulations that have not been properly addressed.		
		KPMG  We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	No further comments	
		Deloitte  None that we are aware of.	No further comments	
		PwC  None noted	No further comments	
		IPA  The IPA is unaware of any law or regulation that would impede the application of the proposed standard.	No further comments	
16	Whether there are any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of	EY  We are not aware of any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	No further comments	
		CA and CPA	The ATG consider that the definition of	

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	the proposed standard, or may conflict with the proposed standard?	<p>One of the proposed changes is to shift the application from “assurance practitioner” in the extant standard to “practitioner”.</p> <p>We appreciate that the ED has defined the term practitioner as “the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used”.</p> <p>This definition could be read as suggesting that only accountants in public practice are able to complete AUP engagements, especially given its references to engagement partners and teams (terms it also defines). This is consistent with the IAASB and AUASB Glossary’s definition of “practitioner” as “professional accountant in public practice”</p> <p>However, the AUASB has a broader standard setting remit than that of the IAASB. The AUASB is not limited to setting standards for the accountancy profession, and we note that AUASB Standards are legitimately used by non-accountants, such as Greenhouse and Energy Auditors.</p> <p>We support the current application of ASRS 4400 which applies to all practitioners who are individuals or organisations involved in the provision of assurance services, whether in public practice, industry commerce or the public sector, not just those who are in public practice.</p> <p>Therefore, we recommend that the AUASB reconsider either the definition of “practitioner” or its application guidance to make it clear that it can also cover those in industry, commerce and the public sector who wish to undertake these engagements, consistent with ASRS 4400’s</p>	<p>practitioner in ED 01/20 is wide enough to cover those who are not ‘accountants’.</p> <p>Furthermore, the term engagement partner is defined in this ED and is also a broader definition. We acknowledge that the previous definition of practitioner as defined in the IAASB and AUASB glossary is limiting. ASRS 4400 is the only standard where the term practitioner is used and as such the ATG suggests that the definition of practitioner as defined in the glossary is updated with this new definition. Additionally, the ATG recommends that the AUASB either clarify this wider definition through application material or through the basis of conclusions document.</p>	

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		current definition of “assurance practitioner”. However, this should not be done by reusing the term “assurance practitioner” which we agree is unhelpful in a non-assurance standard.	REFER JUNE 2020 BOARD MEETING SUMMARY PAPER Section C, Part A, paragraph 5.	
		The use of the broader term could mean that the understanding of the necessary skill sets and evidence-based issues may be less clear to those without an assurance background who take on AUP engagements.		
		Therefore, we recommend that the AUASB review the forthcoming IAASB guidance to ensure practitioners are reminded of their ethical obligations to address these issues appropriately. Direction to guidance about objective and scientific facts, such as that included in Appendix 1 of APES 215 <i>Forensic Accounting Services</i> may be of additional assistance.		
		KPMG  No.	No further comments	
		Deloitte  None that we are aware of.	No further comments	
		PwC  None noted	No further comments	
		IPA  The IPA has expressed concerns on the use of AUP reports in our covering letter.	Noted through other item numbers.	

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		It is the IPA's view the adoption of revised ISRS 4400 without significant amendment will only exacerbate these concerns and therefore the adoption of proposed ISRS 4400 without significant amendment is not in the best interest of users or the Australian economy.		
17	What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:  a) Where those costs are likely to occur;  b) The estimated extent of costs, in percentage terms (relative to related services fee); and  c) Whether expected costs outweigh the	EY  We do not believe that there are any additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed standard.	No further comments	
		CA and CPA  We believe that the benefits of maintaining international harmonisation of these requirements can be achieved without impacting the perceived quality of these engagements in Australia. Allowing the implementation of independence requirements that are appropriate to the needs of users and engaging parties will remove any unnecessary costs arising from making an independence assessment and so increase the ability of many practitioners to offer a wider variety of services to their clients. In addition, providing the option of allowing practitioners to restrict the use of their reports still enables them to access the appropriate protections afforded by professional indemnity.	No further comments	
		KPMG  We do not expect any additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard.	No further comments	

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	benefits to the users of related services?	Deloitte  We do not see the application of the requirements in the proposed standard resulting in additional significant costs.	No further comments	
		PwC  No significant additional costs expected as a result of the proposed amendments.	No further comments	
		IPA  The IPA is not in the position to benefit on the costs/benefits of the adoption of the revised ISRS 4400.	N/A	
18	Are there any other significant public interest matters that stakeholders wish to raise?	EY  We have no other significant public interest matters that we would like to raise in relation to the proposed standard.	No further comments	
		CA and CPA  None of which we are aware.	No further comments	
		KPMG  No.		
		Deloitte	Noted. No further comments	

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		<p>Due to the substantive revisions to extant ASRS 4400, and the wide range of stakeholders (e.g. regulators, funding agencies, landlords) that use the proposed standard and AUP reports for a variety of reasons, the education of stakeholders is essential to the successful implementation of the proposed standard.</p> <p>This is especially the case with respect to the key areas relating to independence and the restriction of use.</p>		
		<p>PwC</p> <p>No additional matters to raise.</p>	No further comments	
		<p>IPA</p> <p>The IPA has expressed concerns on the use of AUP reports in our covering letter.</p> <p>It is the IPA's view the adoption of revised ISRS 4400 without significant amendment will only exacerbate these concerns and therefore the adoption of proposed ISRS 4400 without significant amendment is not in the best interest of users or the Australian economy.</p>	Noted.	

\* \* \*

**EXHIBIT 2: Other comments raised**

The comments received in the appendices of the submissions to AUASB are tabled below.

**KPMG**

Relevant paragraphs	Other comments	AUASB ATG Comment
Paragraph 13(a), 13(b), 24(f)(i), 24(g), 30(e)(i), 30e(iii)	<p>These paragraphs use the term ‘other parties’; however, the term ‘other parties’ is not defined. All of these paragraphs refer to the guidance in paragraph A10 which states that “...the procedures <i>may</i> be agreed with intended users in addition to the engaging party”.</p> <p>A10 does not use the term ‘other parties’.</p> <p>This appears to be an inconsistency in terminology.</p>	<p>The purpose of A10 is to explain that, in some cases, the procedures may be agreed with intended users other than the engaging party and that intended users other than the engaging party may also acknowledge the appropriateness of the procedures,</p> <p>Other parties is the common use of the word term – meaning someone else (besides the engaging party) and did not require a definition as it is a commonly understood term. The term ‘other parties’ is a wide term and incorporates ‘intended users’. References to “(if relevant, other parties)” was added to key areas of the standard, including the definitions, terms of engagement and the AUP report.</p> <p>The terms are intentional and are not inconsistent – the one term is just broader.</p>
Paragraph 24(b)	We note that paragraph 24(b) requires the engagement letter to include “the purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party”. As noted above, this	<p>Extant ASRS 4400 requires intended users to be named in the engagement letter.</p> <p>Definition of intended user is individual or organisation or groups. Additionally, the definition of intended user acknowledges that In some cases, there may be intended users</p>

	<p>is sometimes challenging at the outset due to timing.</p> <p>Whilst we might be able to include a group of intended users, we may not be able to individually name an entity. A common example is in a transaction where a successful bidder may only be identified after the engagement contract has been signed and the procedures have been performed and yet they are the intended user for the purpose of the agreed-upon procedures engagement.</p>	<p>other than those to whom the agreed-upon procedures report is addressed. In the scenario described by KPMG – they can identify a group which would then meet the definition of intended user. As such, no changes suggested.</p>
Paragraph 32	<p>The paragraph talks about the practitioner providing a summary of findings in addition to the description of findings.</p> <p>It is not clear why a summary of findings might be provided or when would it be appropriate to include a summary of the findings in an AUP report.</p> <p>Given this engagement is to perform very specific procedures and report on them, a summary has the potential for misunderstanding and a risk that readers do not read the report in its entirety.</p>	<p>In its deliberations, the IAASB agreed that there is merit in allowing the practitioner to provide a summary of findings. However, to avoid misinterpretations of the summary, the IAASB developed paragraph 32 to require:</p> <ul style="list-style-type: none"> <li>• The summary of findings to be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and</li> <li>• The AUP report to include a statement indicating that reading the summary is not a substitute for reading the complete report.</li> </ul> <p>No changes suggested.</p>
Paragraph A37	<p>The end of the last bullet point is missing a full stop.</p>	<p>Noted</p>
Paragraph A55	<p>The last bullet point which reads <i>‘to understand the professional or legal implications of taking any particular course</i></p>	<p>The end sentence as quoted is not a last bullet, it’s a hanging ending sentence that attaches to all 3 of the above bullets.</p>

	<i>of action</i> ’ is not clear and appears to be missing part of the phrase. Should this read the same as the phrase contained in paragraph A20: “ <b><i>obtaining legal advice</i></b> to understand the professional.....”?	
Illustration 2 of Appendix 2	The header “Professional Ethics and Quality Control” is not in italics whereas it is in Illustration 1.	Noted

## Deloitte

## Appendix 2

Table 1: Proposed Changes

REF	Paragraph detail	Proposed amendments	Deloitte Proposed amendments
Para 6	An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any for	An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion, <b>a review</b> or an assurance conclusion in any for	Propose insert review to align with the preceding sentence.  <i>AUASB Technical Group Response:</i> An assurance conclusion covers reviews. No change
Para 13 (a)	(a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)	(a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other <b>parties intended users</b> ). (Ref: Para. A10)	Proposed change so as to align to paragraph A10.  <i>AUASB Technical Group Response:</i> Refer response to KPMGs comment above.
Para 13 (b)	(b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)	(b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other <b>parties intended users</b> ) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)	Proposed change so as to align to paragraph A10.  <i>AUASB Technical Group Response:</i> Refer response to KPMGs comment above.
Para 13 (f)	(f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ASRS exclude opinions or conclusions in any form as well as any	(f) Findings – <b>Findings are the</b> factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. <b>References to findings in this ASRS exclude opinions or conclusions in any form</b>	<ul style="list-style-type: none"> <li>Proposed change so as to align to the format of the other definitions.</li> </ul> <p>The second sentence seems to suggest the practitioner may make opinions, conclusions or recommendations in an AUP, which may</p>

	recommendations that the practitioner may make. (Ref: Para. A12–A13)	as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)	lead to undue confusion or misunderstanding. Perhaps this can be moved to application guidance indicating that it is not expected that the practitioner will be providing opinions, conclusions or recommendations.  <i>AUASB Technical Group Response:</i> Paragraph 6 makes it very clear that no opinion or conclusion is provided. Not considered a compelling reason to change from IAASB. No change suggested.
Para 22 b.	The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;	The purpose of the engagement and the intended users of the agreed-upon procedures report as <b>identified determined</b> by the engaging party;	We believe that the engaging party determines the purpose rather than identifying the purpose of the engagement and therefore recommend replacing that term.  <i>AUASB Technical Group Response:</i> Not considered to meet any compelling reason to change from IAASB. No change suggested.
Para 22 g.	Reference to the expected form and content of the agreed-upon procedures report.	Reference to the expected form and content of the agreed-upon procedures report <b>and a statement that there may be circumstances in which a report may differ from its expected form and content;</b>	There may be circumstances in which the agreed-upon procedures report may differ from its expected form and content for example, in most cases the template report does not take into account exceptions and this may change depending on the outcome of the engagement.  <i>AUASB Technical Group Response:</i> The form of the report is guidance only. The content of the report needs to meet the requirements of the standard. No change suggested.

Para 23	If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.	If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner practitioner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.	It is not clear why the emphasis is on the communication to the firm as all the requirements for engagement acceptance and continuance all reference to the practitioner.  <i>AUASB Technical Group Response:</i>  Engagement partner is defined in this standard. Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. This is a link through to proposed ASQM 1. No changes proposed.
Para. 24	Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)	Acknowledgement by the engaging party (and if relevant, other parties intended users) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)	Proposed change so as to align to paragraph A10.  <i>AUASB Technical Group Response:</i> Refer response to KPMGs comment above.
Para. 24	(h) Identification of the addressee of the agreed-upon procedures report.	(h) Identification of the addressee (s) of the agreed-upon procedures report, who is the engaging party and where applicable, other intended user (s).	We propose that the AUASB provide guidance that clarifies that the engaging party will always be the addressee at the minimum.  In addition, acknowledge that there may be other addressees in addition to the engaging party but this may not always be the case.  <i>AUASB Technical Group Response:</i>

			The lead in to para 24 requires the terms of engagement to be agreed with the engaging party. The addressee may not be the engaging party – ie engaging party could be management while addressee is the directors. The example letters to the standard demonstrate different scenarios. No changes suggested.
Para. 28	The practitioner shall consider whether it is necessary to request written representations (Ref: Para. A24)	The practitioner shall <del>consider</del> <b>evaluate</b> whether it is necessary to request written representations (Ref: Para. A45)	Using the term ‘consider’ tends to dilute the requirement and doesn’t convey the expected action.  <i>AUASB Technical Group Response:</i> The reason for the ‘softer’ term is that there is no expectation for the practitioner to request written representations on all AUP engagements. No changes suggested.
Para. 30	(m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQC 1;	(m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 1- <b>and for professional requirements other than ASQC 1.</b> <del>If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQC 1;</del>	<ul style="list-style-type: none"> <li>Based on the first sentence it is clear that the practitioner would need to consider what professional requirements they have complied with.</li> <li>Is there a need for the AUASB to provide examples of which professional requirements or requirements in law or regulations are considered at least demanding?</li> </ul> <p>It is not clear why this paragraph references to professional accountant as this is not defined in the standard.</p>

			<p><i>AUASB Technical Group Response:</i> Professional accountant is defined within the AUASB glossary as an individual who is a member of an accounting professional body. The reference is important as not all practitioners conducting AUP engagements are accountants, but their organisations still need firm quality control standards. No change suggested.</p>
Para. A55	<p>If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:</p> <ul style="list-style-type: none"> <li>• Consulting internally (for example, within the firm or network firm);</li> <li>• Consulting externally (for example, with the relevant professional body or another practitioner); or</li> <li>• Obtaining legal advice, to understand the professional or legal implications of taking any particular course of action.</li> </ul>	<p>If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:</p> <ul style="list-style-type: none"> <li>• Consulting internally (for example, within the firm or network firm);</li> <li>• Consulting externally (for example, with the relevant professional body or another practitioner); or</li> <li>• Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.</li> </ul>	<p>It appears that the fourth bullet should be part of the third bullet point.</p> <p><i>AUASB Technical Group Response:</i> No, the hanging sentence is attributable to all 3 of the above bullets. No change.</p>
Para. A56.	<p>There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not</p>	<p><del>There may be</del> In circumstances <del>where the fact that</del> previously agreed-upon procedures have not been performed or have been modified, it is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original</p>	<p>Considering the nature of an AUP engagement, it is expected that when certain procedures are modified or cannot be performed, this information will always be relevant to the intended users.</p> <p><i>AUASB Technical Group Response:</i> This is application material not a requirement. No change made.</p>

	be performed or were modified, and why that has arisen.	terms of the engagement which could not be performed or were modified, and why that has arisen.	
Para. A60	For a procedure requiring enquiries of specific personnel, the practitioner may record the dates of the enquiries, the names and job designations of the personnel and the specific enquiries made	N/A – see comment	<p>In practice, it is common to have ‘enquiry’ as a procedure. However, considering the definition for findings in ED 01/20, the AUASB should consider adding guidance on how the findings from an ‘enquiry’ procedure would look like so as to meet the requirement of ‘being capable of being objectively verified’.</p> <p>A proposal would in addition to including the information in paragraph A60, the AUASB can consider adding that the practitioner may also record the exact outcome/response to the enquiry in the report. In addition, it would be useful if an illustrative example relating to an enquiry type procedure could be included.</p> <p><i>AUASB Technical Group Response:</i> A33 contains the action of enquiry as an acceptable action as compared with discussion which in A34 is considered vague. Suggest the detail contained in A60 is sufficient. No change suggested.</p>
Appendix 2 Illustration 2 Procedure 2	Findings column “....We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline...”	We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.	<p>Propose this is deleted as it does not meet the definition of a finding in ED 01/20, it is not directly linked to the procedure and it may set an expectation from users that this is acceptable.</p> <p>To address the fact that in practice clients commonly expect the practitioner to include</p>

			<p>the reasons for exceptions, we suggest that the proposed standard be updated to include in the example procedures, a procedure for obtaining an explanation/representation for an exception and an example of appropriate wording as a finding for this procedure.</p> <p><i>AUASB Technical Group Response:</i> There is no judgement or practitioners' conclusions on this statement. It is just a statement. The standard does not preclude this. The standard facilitates management representations. No changes proposed.</p>
<p>Appendix 2 Illustration 2 Procedure 3</p>	<p>Findings column</p> <p>We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X8.</p>	<p>We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X8.</p>	<p>Same rationale as above.</p> <p><i>AUASB Technical Group Response</i> As above</p>

**Appendix 2 (continued)**

Table 2 : Editorial Comments

REF	Paragraph detail	Proposed amendments	Deloitte Suggestions
Para 3	Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms that perform <b>Related Services Engagements</b> . The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)	Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms that perform <b>Related Services Engagements</b> . The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)	Changes made to align to paragraph A3. Capitalisation in this context is generally used when referencing to the name of the standard.  No changes made
Para A34	Terms that imply expression of an assurance opinion or conclusion such as “we certify,” “we verify,” “we have ascertained” or “we have ensured” with regard to the findings	Terms that imply expression of an assurance opinion or conclusion such as “we <b>certified</b> ,” “we <b>verified</b> ,” “we have ascertained” or “we have ensured” with regard to the findings	Proposed change to align to the rest of the sentence.  No changes made
Appendix 2 Illustration 2 Procedure 2	Title : Illustrations of Agreed-Upon Procedures Reports	<b>Illustrations of Agreed-Upon Procedures Reports</b> <del>Illustrations of Agreed-Upon Procedures Reports</del> <b>Engagements</b>	To align to the title for Appendix 1.  No changes made.

## IPA

The IPA has serious concerns in relation to the proposals for agreed-upon procedure engagements.

The IPA is concerned that reports issued by accounting firms are often used in a manner that implies the objectively, independence and other characteristics of assurance engagements despite the actual nature of the engagement. **ATG response: The AUP report is required to make a clear statement regarding independence – there is full transparency as to whether the practitioner is independent or not.**

The IPA believes AUP engagements are often use as “assurance light engagements” that enable engaging parties to use the resulting reports in an advocacy manner to support the engaging party’s position or proposed action. The AUP engagements are able to be used in an advocacy manner by engaging parties as such reports are “third party” reports and benefit from the “halo” effect of the engagements being carried by audit firms. The implication being that the audit firms are independent in undertaking AUP engagements. It is naïve to consider the appointment of assurance firms to undertake AUP engagements does not arise from “brand association” as both the provider of assurance services and the associate implied independence. **ATG response: An AUP engagement is not ‘assurance light’. An AUP engagement conveys no assurance at all (not reasonable nor limited). The engagement letter and AUP report is clear on this to engaging parties. The AUP report is required to make a clear statement regarding independence – there is full transparency as to whether the practitioner is independent or not.**

The potential for “misuse” of AUP engagements is compounded by the relatively meagre engagement acceptance guidance, particularly when compared to ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The lack of extensive engagement acceptance criteria increases the potential use of AUP engagements and their associated reports. This lack of guidance is aggravated by the proposed withdrawal of Appendices 1 and 2 of the existing standard and the application guidance at A2 of the proposed standard which are in fact often carried out as assurance engagements. **ATG response: The requirements of ASAE 3000 are not applicable to ASRS 4400 as ASRS 4400 is not an assurance engagement. The IAASB intends to issue application material that clearly sets out the differences between and AUP engagement and an assurance engagement.**

The IPA believes the proposed changes would substantially exacerbate the risk of misuse of AUP engagements as a result of the weaker independence requirements of the proposed standard and the lifting of the restrictions on distribution. **ATG response: The AUP report is required to make a clear statement regarding independence – there is full transparency as to whether the practitioner is independent or not. The standard contains a requirement that the report contains a statement identifying the purpose of the report and that the report may not be suitable for another purpose. The standard also facilitates a restriction on use or distribution to be determined by the practitioner.**

We are considered with the implications of the proposed changes to AUP engagements have on ASRS 4450 *Comfort Letters* as such engagements are characterised as AUP engagements. **ATG response: to be considered at a later stage.**

The IPA believes the proposed revised standard is not in the best interest of the public or the profession and risks further damage the credibility of assurance practitioners. The IPA considers that the AUASB should pursue new proposals to enhance the existing ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Finding*. We find little merit, in the AUASB pursuing alignment with ISRS 4400.\* \* \*

**ASRS 4400**  
(June 2020)

# **Standard on Related Services ASRS 4400** ***Agreed-Upon Procedures Engagements***

Issued by the Auditing and Assurance Standards Board

Draft



**Australian Government**

**Auditing and Assurance Standards Board**

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This Standard on Related Services is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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## PREFACE

### Reasons for Issuing ASRS 4400

The AUASB issues Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to the requirements of the legislative provisions and strategic direction explained below.

The AUASB is a non corporate Commonwealth entity of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

Under the strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB develops auditing and assurance standards other than for historical financial information. The AUASB uses the standards of the International Auditing and Assurance Standards Board as a base on which to develop standards and incorporates additional requirements considered to be in the public interest. Accordingly, the AUASB has decided to issue ASRS 4400 using the equivalent International Standard on Related Services ISRS 4400 *Agreed-Upon Procedures Engagements*.

### Main Features

This Standard on Related Services represents the Australian equivalent of the IAASB's revised ISRS 4400 *Agreed-Upon Procedures Engagements* and will replace the current ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* issued by the AUASB in July 2013.

This Standard on Related Services contains differences from the current ASRS 4400, which are detailed in the Explanatory Memorandum accompanying the ASRS 4400.

The main features of this standard include:

- a) Professional judgement — new requirements and application material on the role of professional judgement.
- b) Independence — new requirements and application material on disclosures relating to the practitioner's independence.
- c) Engagement acceptance and continuance considerations — new requirements and application material addressing conditions for engagement acceptance and continuance.
- d) Use of a practitioner's expert — new requirements and application material to address the use of the work of a practitioner's expert, including the practitioner's responsibilities when using the work of an expert.
- e) Agreed-upon procedures report restrictions — clarification that the agreed-upon procedures report is not restricted to parties that have agreed to the procedures to be performed unless the practitioner decides to do so, and new application material on the practitioner's considerations if the practitioner wishes to place restrictions on the agreed-upon procedures report.
- f) ISRS 4400 also addresses non-financial subject matters and includes new definitions, requirements and application material on written representations, recommendations arising from the performance of agreed-upon procedures engagements, and documentation.

### **AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Related Services is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied.

Dated: <TypeHere>

R Simnett AO  
Chair - AUASB

## **Conformity with International Standards on Related Services**

This Standard on Related Services conforms with International Standard on Related Services ISRS 4400 *Agreed-Upon Procedures Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that are expected to be added/deleted/amended to this Standard on Related Services are identified with the prefix “Aus”.

Compliance with this Standard on Related Services enables compliance with ISRS 4400.

*Draft*

# STANDARD ON RELATED SERVICES ASRS 4400

## *Agreed-Upon Procedures Engagements*

The grey shaded materials relate to Australian Standard on Quality Control (ASQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

### Application

- Aus 0.1 This Australian Standard on Related Services (ASRS) applies to the performance of agreed-upon procedures engagements on financial or non-financial subject matters. (Ref: Para. A1–A2)

### Operative Date

- Aus 0.2 This ASRS is operative for agreed-upon procedures engagements for which the terms of engagement are agreed on or after 1 January 2022. (Ref: Para. A9)

### Introduction

#### Scope of this ASRS

1. This ASRS deals with:
  - (a) The practitioner's responsibilities when engaged to perform an agreed-upon procedures engagement; and
  - (b) The form and content of the agreed-upon procedures report.
2. [Deleted by the AUASB. Refer Aus 0.1]

#### *Relationship with ASQC1<sup>1</sup>*

3. [Deleted by the AUASB. Refer Aus 3.1]

- Aus 3.1 Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms of assurance practitioners in respect of a firm's agreed-upon procedures engagements. The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)

### The Agreed-Upon Procedures Engagement

4. In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended

<sup>1</sup> Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*.

users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

5. The value of an agreed-upon procedures engagement performed in accordance with this ASRS results from:
  - (a) The practitioner's compliance with professional standards, including relevant ethical requirements; and
  - (b) Clear communication of the procedures performed and the related findings.
6. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form.

#### **Authority of this ASRS**

7. This ASRS contains the objectives of the practitioner in following the ASRS, which provide the context in which the requirements of this ASRS are set. The objectives are intended to assist the practitioner in understanding what needs to be accomplished in an agreed-upon procedures engagement.
8. This ASRS contains requirements, expressed using "shall", that are designed to enable the practitioner to meet the stated objectives.
9. In addition, this ASRS contains introductory material, definitions, and application and other explanatory material, that provide context relevant to a proper understanding of this ASRS.
10. The application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in this ASRS that assists in the application of the requirements.

#### **Effective Date**

11. [Deleted by the AUASB. Refer Aus 0.2]

#### **Objectives**

12. The practitioner's objectives in an agreed-upon procedures engagement under this ASRS are to:
  - (a) Agree with the engaging party the procedures to be performed;
  - (b) Perform the agreed-upon procedures; and
  - (c) Communicate the procedures performed and the related findings in accordance with the requirements of this ASRS.

#### **Definitions**

13. For purposes of this ASRS, the following terms have the meanings attributed below:
  - (a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)
  - (b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and

if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)

- (c) Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the agreed-upon procedures report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- (d) Engaging party – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement. (Ref: Para. A11)
- (e) Engagement team – All partners and staff performing the agreed-upon procedures engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.
- (f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ASRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)
- (g) Intended users – The individual(s) or organisation(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed. (Ref: Para. A10)
- (h) Practitioner – The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. (Ref: Para. Aus A13.1)
- (i) Practitioner's expert – An individual or organisation possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner's responsibilities for the agreed-upon procedures engagement. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert.
- (j) Professional judgement – The application of relevant training, knowledge and experience, within the context provided by this ASRS and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures engagement.
- (k) Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking agreed-upon procedures engagements. These requirements ordinarily comprise the Accounting Professional & Ethical Standards Board (APESB)'s *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) together with national requirements that are more restrictive.
- (l) Responsible party – The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

## **Requirements**

### **Conduct of an Agreed-Upon Procedures Engagement in Accordance with this ASRS**

14. The practitioner shall have an understanding of the entire text of this ASRS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.

#### *Complying with Relevant Requirements*

15. The practitioner shall comply with each requirement of this ASRS unless a particular requirement is not relevant to the agreed-upon procedures engagement, for example, if the circumstances addressed by the requirement do not exist in the engagement.
16. The practitioner shall not represent compliance with this ASRS unless the practitioner has complied with all requirements of this ASRS relevant to the agreed-upon procedures engagement.

### **Relevant Ethical Requirements**

17. The practitioner shall comply with relevant ethical requirements. (Ref: Para. A14–A20)

### **Professional Judgement**

18. The practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, taking into account the circumstances of the engagement. (Ref: Para. A21–A23)

### **Engagement Level Quality Control**

19. The engagement partner shall take responsibility for:
- (a) The overall quality of the agreed-upon procedures engagement including, if applicable, work performed by a practitioner's expert; and (Ref: Para. A24)
  - (b) The engagement being performed in accordance with the firm's quality control policies and procedures by:
    - (i) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements; (Ref: Para. A25)
    - (ii) Being satisfied that the engagement team, and any practitioner's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the agreed-upon procedures engagement;
    - (iii) Being alert for indications of non-compliance by members of the engagement team with relevant ethical requirements, and determining the appropriate actions if matters come to the engagement partner's attention indicating that members of the engagement team have not complied with relevant ethical requirements; (Ref: Para. A26)
    - (iv) Directing, supervising and performing the engagement in compliance with professional standards and applicable legal and regulatory requirements; and
    - (v) Taking responsibility for appropriate engagement documentation being maintained.
20. If the work of a practitioner's expert is to be used, the engagement partner shall be satisfied that the practitioner will be able to be involved in the work of a practitioner's expert to an

extent that is sufficient to take responsibility for the findings included in the agreed-upon procedures report. (Ref: Para. A27)

### **Engagement Acceptance and Continuance**

21. Before accepting or continuing an agreed-upon procedures engagement, the practitioner shall obtain an understanding of the purpose of the engagement. The practitioner shall not accept or continue the engagement if the practitioner is aware of any facts or circumstances indicating that the procedures the practitioner is being asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. (Ref: Para. A28–A31)
22. The practitioner shall accept or continue the agreed-upon procedures engagement only when: (Ref: Para. A28–A31)
  - (a) The engaging party acknowledges that the expected procedures to be performed by the practitioner are appropriate for the purpose of the engagement;
  - (b) The practitioner expects to be able to obtain the information necessary to perform the agreed-upon procedures;
  - (c) The agreed-upon procedures and related findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations; (Ref: Para. A32–A36)
  - (d) The practitioner has no reason to believe that relevant ethical requirements will not be complied with; and
  - (e) If the practitioner is required to comply with independence requirements, the practitioner has no reason to believe that the independence requirements will not be complied with. (Ref: Para. A37–A38)
23. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.

### **Agreeing the Terms of the Engagement**

24. The practitioner shall agree the terms of the agreed-upon procedures engagement with the engaging party and record the agreed terms of engagement in an engagement letter or other suitable form of written agreement. These terms shall include the following: (Ref: Para. A39–A40)
  - (a) Identification of the subject matter(s) on which the agreed-upon procedures will be performed;
  - (b) The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;
  - (c) If applicable, the responsible party as identified by the engaging party, and a statement that the agreed-upon procedures engagement is performed on the basis that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
  - (d) Acknowledgement of the relevant ethical requirements with which the practitioner will comply in conducting the agreed-upon procedures engagement;
  - (e) A statement as to whether the practitioner is required to comply with independence requirements and, if so, the relevant independence requirements; (Ref: Para. A37–A38)
  - (f) The nature of the agreed-upon procedures engagement, including statements that:

- (i) An agreed-upon procedures engagement involves the practitioner performing the procedures agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
  - (ii) Findings are the factual results of the agreed-upon procedures performed; and
  - (iii) An agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
- (g) Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)
  - (h) Identification of the addressee of the agreed-upon procedures report;
  - (i) The nature, timing and extent of the procedures to be performed, described in terms that are clear, not misleading and not subject to varying interpretations; and (Ref: Para. A41–A42)
  - (j) Reference to the expected form and content of the agreed-upon procedures report.
25. If the agreed-upon procedures are modified during the course of the engagement, the practitioner shall agree amended terms of engagement with the engaging party that reflect the modified procedures. (Ref: Para. A43)

#### *Recurring Agreed-Upon Procedures Engagements*

26. On recurring agreed-upon procedures engagements, the practitioner shall evaluate whether circumstances, including changes in the engagement acceptance considerations, require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of engagement. (Ref: Para. A44)

#### **Performing the Agreed-Upon Procedures**

27. The practitioner shall perform the procedures as agreed upon in the terms of the engagement.
28. The practitioner shall consider whether to request written representations. (Ref: Para. A45)

#### **Using the Work of a Practitioner's Expert**

29. If the practitioner uses the work of a practitioner's expert, the practitioner shall: (Ref: Para. A46–A47, A50)
- (a) Evaluate the competence, capabilities and objectivity of the practitioner's expert;
  - (b) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; (Ref: Para. A48–A49)
  - (c) Determine whether the nature, timing and extent of the work performed by the practitioner's expert is consistent with the work agreed with the expert; and
  - (d) Determine whether the findings adequately describe the results of the work performed, taking into account the work performed by the practitioner's expert.

#### **The Agreed-Upon Procedures Report**

30. The agreed-upon procedures report shall be in writing and shall include: (Ref: Para. A51)
- (a) A title that clearly indicates that the report is an agreed-upon procedures report;

- (b) An addressee as set forth in the terms of the engagement;
- (c) Identification of the subject matter on which the agreed-upon procedures are performed; (Ref: Para. A52)
- (d) Identification of the purpose of the agreed-upon procedures report and a statement that the agreed-upon procedures report may not be suitable for another purpose; (Ref: Para. A53–A54)
- (e) A description of an agreed-upon procedures engagement stating that:
  - (i) An agreed-upon procedures engagement involves the practitioner performing the procedures that have been agreed with the engaging party (and if relevant, other parties), and reporting the findings; (Ref: Para. A10)
  - (ii) Findings are the factual results of the agreed-upon procedures performed; and
  - (iii) The engaging party (and if relevant, other parties) has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement. (Ref: Para. A10)
- (f) If applicable, the responsible party as identified by the engaging party, and a statement that the responsible party is responsible for the subject matter on which the agreed-upon procedures are performed;
- (g) A statement that the engagement was performed in accordance with ASRS 4400;
- (h) A statement that the practitioner makes no representation regarding the appropriateness of the agreed-upon procedures;
- (i) A statement that the agreed-upon procedures engagement is not an assurance engagement and accordingly, the practitioner does not express an opinion or an assurance conclusion;
- (j) A statement that, had the practitioner performed additional procedures, other matters might have come to the practitioner's attention that would have been reported;
- (k) A statement that the practitioner complies with the ethical requirements of the APESB Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding;
- (l) With respect to independence:
  - (i) If the practitioner is not required to be independent and has not otherwise agreed in the terms of engagement to comply with independence requirements, a statement that, for the purpose of the engagement, there are no independence requirements with which the practitioner is required to comply; or
  - (ii) If the practitioner is required to be independent or has agreed in the terms of engagement to comply with independence requirements, a statement that the practitioner has complied with the relevant independence requirements. The statement shall identify the relevant independence requirements;
- (m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQC 1;

- (n) A description of the procedures performed detailing the nature and extent, and if applicable, the timing, of each procedure as agreed in the terms of the engagement; (Ref: Para. A55–A57)
  - (o) The findings from each procedure performed, including details on exceptions found; (Ref: Para. A55–A56)
  - (p) The practitioner’s signature;
  - (q) The date of the agreed-upon procedures report; and
  - (r) The location in the jurisdiction where the practitioner practices.
31. If the practitioner refers to the work performed by a practitioner’s expert in the agreed-upon procedures report, the wording of the report shall not imply that the practitioner’s responsibility for performing the procedures and reporting the findings is reduced because of the involvement of an expert. (Ref: Para. A58)
32. If the practitioner provides a summary of findings in the agreed-upon procedures report in addition to the description of findings as required by paragraph 30(o):
- (a) The summary of findings shall be described in a manner that is objective, in terms that are clear, not misleading, and not subject to varying interpretations; and
  - (b) The agreed-upon procedures report shall include a statement indicating that reading the summary is not a substitute for reading the complete report.
33. The practitioner shall date the agreed-upon procedures report no earlier than the date on which the practitioner completed the agreed-upon procedures and determined the findings in accordance with this ASRS.

**Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement**

34. The agreed-upon procedures report shall be clearly distinguished from reports on other engagements. (Ref: Para. A59)

**Documentation**

35. The practitioner shall include in the engagement documentation: (Ref: Para. A60)
- (a) The written terms of engagement and, if applicable, the agreement of the engaging party as to modifications to the procedures;
  - (b) The nature, timing and extent of the agreed-upon procedures performed; and
  - (c) The findings resulting from the agreed-upon procedures performed.

\* \* \*

## **Application and Other Explanatory Material**

### **Application of this ASRS (Ref: Para. Aus 0.1)**

- A1. Reference to “subject matters” in this ASRS encompasses anything on which agreed-upon procedures are performed, including information, documents, measurements or compliance with laws and regulations, as relevant.
- A2. Examples of financial and non-financial subject matters on which an agreed-upon procedures engagement may be performed include:
- Financial subject matters relating to:
    - The entity’s financial report or specific classes of transactions, account balances or disclosures within the financial report.
    - Eligibility of expenditures claimed from a funding program.
    - Revenues for determining royalties, rent or franchise fees based on a percentage of revenues.
    - Capital adequacy ratios for regulatory authorities.
  - Non-financial subject matters relating to:
    - Numbers of passengers reported to a civil aviation authority.
    - Observation of destruction of fake or defective goods reported to a regulatory authority.
    - Data generating processes for lottery draws reported to a regulatory authority.
    - Volume of greenhouse gas emissions reported to a regulatory authority.

The above list is not exhaustive. Additional types of subject matters may arise as external reporting demands evolve.

### **Relationship with ASQC 1 (Ref: Para. Aus 3.1)**

- A3. ASQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for related services engagements, including agreed-upon procedures engagements. Those responsibilities are directed at establishing:
- The firm’s quality control system; and
  - The firm’s related policies designed to achieve the objective of the quality control system and its procedures to implement and monitor compliance with those policies.
- A4. Under ASQC 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:
- (a) The firm and its personnel comply with professional standards and applicable legal and regulatory requirements; and
  - (b) Reports issued by the firm or engagement partners are appropriate in the circumstances.<sup>2</sup>

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<sup>2</sup> ASQC 1, paragraph 11.

A5. A jurisdiction that has not adopted ASQC 1 in relation to agreed-upon procedures engagements may set out requirements for quality control in firms performing such engagements. The provisions of this ASRS regarding quality control at the engagement level are premised on the basis that quality control requirements adopted are at least as demanding as those of ASQC 1. This is achieved when those requirements impose obligations on the firm to achieve the aims of the requirements of ASQC 1, including an obligation to establish a system of quality control that includes policies and procedures that address each of the following elements:

- Leadership responsibilities for quality within the firm;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

A6. Within the context of the firm's system of quality control, engagement teams have a responsibility to implement quality control procedures applicable to the engagement.

A7. Unless information provided by the firm or other parties suggests otherwise, the engagement team is entitled to rely on the firm's system of quality control. For example, the engagement team may rely on the firm's system of quality control in relation to:

- Competence of personnel through their recruitment and formal training.
- Maintenance of client relationships through acceptance and continuance systems.
- Adherence to legal and regulatory requirements through the monitoring process.

In considering deficiencies identified in the firm's system of quality control that may affect the agreed-upon procedures engagement, the engagement partner may consider measures taken by the firm to rectify the situation that the engagement partner considers are sufficient in the context of that agreed-upon procedures engagement.

A8. A deficiency in the firm's system of quality control does not necessarily indicate that an agreed-upon procedures engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the agreed-upon procedures report was not appropriate.

**Operative Date** (Ref: Para. Aus. 0.2)

A9. For terms of engagement covering multiple years, practitioners may wish to update the terms of engagement so that the agreed-upon procedures engagements will be conducted in accordance with this ASRS on or after the operative date.

**Definitions**

*Engaging Party and Other Intended Users* (Ref: Para. 13(a), 13(b), 13(d), 13(g), 24(f)(i), 24(g), 30(e)(i), 30(e)(iii))

A10. In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures.

- A11. The engaging party may be, under different circumstances, the responsible party, a regulator or other intended user. References to the engaging party in this ASRS include multiple engaging parties when relevant.

*Findings* (Ref: Para. 13(f))

- A12. Findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results. Findings exclude the expression of an opinion or a conclusion as well as any recommendations that the practitioner may make.
- A13. Practitioners may use the term “factual findings” in place of “findings”, for example, in cases when the practitioner is concerned that the term “findings” may be misunderstood. This may be the case in jurisdictions or languages where the term “findings” may be understood as including results that are not factual.

*Practitioner* (Ref: Para. 13(h))

- Aus A13.1 The individual(s) conducting the engagement may be a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.

**Relevant Ethical Requirements** (Ref: Para. 17)

*Objectivity and Independence*

- A14. A practitioner performing an agreed-upon procedures engagement is required to comply with relevant ethical requirements. Relevant ethical requirements ordinarily comprise the APESB Code, together with national requirements that are more restrictive. The APESB Code requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others. Accordingly, relevant ethical requirements to which the practitioner is subject would, at a minimum, require the practitioner to be objective when performing an agreed-upon procedures engagement.
- A15. The APESB Code does not contain independence requirements for agreed-upon procedures engagements. However, national ethical codes, laws or regulations, other professional requirements, or conditions of a contract, program, or arrangement relating to the subject matter for the agreed-upon procedures engagement may specify requirements pertaining to independence.

*Non-Compliance with Laws and Regulations*<sup>3</sup>

- A16. Law, regulation or relevant ethical requirements may:
- (a) Require the practitioner to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
  - (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.<sup>4</sup>
- A17. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

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<sup>3</sup> Relevant ethical requirements may indicate that non-compliance with laws and regulations includes fraud. See, for example, 360.5 A2 of the APESB Code.

<sup>4</sup> See, for example, paragraphs R360.36 to 360.36A3 of the APESB Code.

- (a) Law, regulation or relevant ethical requirements require the practitioner to report;
  - (b) The practitioner has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
  - (c) Law, regulation or relevant ethical requirements provide the practitioner with the right to do so.
- A18. The practitioner is not expected to have a level of understanding of laws and regulations beyond that necessary to be able to perform the agreed-upon procedures engagement. However, law, regulation or relevant ethical requirements may expect the practitioner to apply knowledge, professional judgement and expertise in responding to identified or suspected non-compliance. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.
- A19. In some circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the practitioner's duty of confidentiality under law, regulation or relevant ethical requirements. In other cases, reporting identified or suspected non-compliance to an appropriate authority outside the entity would not be considered a breach of the duty of confidentiality under the relevant ethical requirements.<sup>5</sup>
- A20. The practitioner may consider consulting internally (e.g., within the firm or network firm), obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulations or would breach the duty of confidentiality).<sup>6</sup>

**Professional Judgement** (Ref: Para. 18)

- A21. Professional judgement is exercised in applying the requirements of this ASRS and relevant ethical requirements, and in making informed decisions about courses of action throughout the agreed-upon procedures engagement, as appropriate.
- A22. In accepting, conducting and reporting on an agreed-upon procedures engagement, professional judgement is exercised, for example, in:
- Accepting the engagement
- Discussing and agreeing with the engaging party (and if relevant, other parties) the nature, timing and extent of the procedures to be performed (taking into account the purpose of the engagement).
  - Determining whether engagement acceptance and continuance conditions have been met.
  - Determining the resources necessary to carry out the procedures as agreed in the terms of the engagement, including the need to involve a practitioner's expert.
  - Determining appropriate actions if the practitioner becomes aware of facts or circumstances suggesting that the procedures to which the practitioner is being asked to agree are inappropriate for the purpose of the agreed-upon procedures engagement.

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<sup>5</sup> See, for example, paragraphs R114.1, 114.1 A1 and R360.37 of the APESB Code.

<sup>6</sup> See, for example, paragraph 360.39 A1 of the APESB Code.

Conducting the engagement

- Determining appropriate actions or responses if, when performing the agreed-upon procedures, the practitioner becomes aware of:
  - Matters that may indicate fraud or an instance of non-compliance or suspected non-compliance with laws or regulations.
  - Other matters that cast doubt on the integrity of the information relevant to the agreed-upon procedures engagement or that indicate that the information may be misleading.
  - Procedures that cannot be performed as agreed.

Reporting on the engagement

- Describing the findings in an objective manner and in sufficient detail, including when exceptions are found.

A23. In conducting the agreed-upon procedures engagement, the need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited for reasons including:

- An agreed-upon procedures engagement involves the performance of procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement.
- The agreed-upon procedures and the findings that result from performing those procedures are capable of being described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.
- The findings are capable of being objectively verified, which means that different practitioners performing the same procedures are expected to arrive at equivalent results.

**Engagement Level Quality Control** (Ref: Para. 19–20)

A24. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each engagement, emphasise the importance to achieving the quality of the engagement of:

- (a) Performing work that complies with professional standards and regulatory and legal requirements;
- (b) Complying with the firm's quality control policies and procedures as applicable; and
- (c) Issuing the practitioner's report for the engagement in accordance with this ASRS.

A25. ASQC1 requires the firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Information that assists the engagement partner in determining whether acceptance or continuance of client relationships and agreed-upon procedures engagements is appropriate may include information concerning the integrity of the principal owners, key management and those charged with governance. If the engagement partner has cause to doubt management's integrity to a degree that is likely to affect proper performance of the engagement, it may not be appropriate to accept the engagement.

- A26. ASQC1 sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. This ASRS sets out the engagement partner's responsibilities with respect to the engagement team's compliance with relevant ethical requirements.
- A27. If the practitioner is unable to meet the requirement in paragraph 20, it may be appropriate for the practitioner to agree with the engaging party to limit the scope of the agreed-upon procedures engagement to procedures for which the practitioner can appropriately take responsibility. The engaging party may separately engage an expert to perform the other procedures.

**Engagement Acceptance and Continuance** (Ref: Para. 21–23)

- A28. In obtaining an understanding of the purpose of the agreed-upon procedures engagement, the practitioner may become aware of indications that the procedures the practitioner is asked to perform are inappropriate for the purpose of the agreed-upon procedures engagement. For example, the practitioner may be aware of facts or circumstances that indicate:
- The procedures are selected in a manner intended to bias the intended users' decision-making.
  - The subject matter on which the agreed-upon procedures are performed is unreliable.
  - An assurance engagement or advisory service may better serve the needs of the engaging party or other intended users.
- A29. Other actions that may satisfy the practitioner that the conditions in paragraphs 21 and 22 are met include:
- Comparing the procedures to be performed with written requirements set out, for example, in law or regulation, or in a contractual agreement (sometimes referred to as the "Terms of Reference"), where appropriate.
  - Requesting the engaging party to:
    - Distribute a copy of the anticipated procedures and the form and content of the agreed-upon procedures report as set out in the terms of engagement to the intended user(s).
    - Obtain acknowledgement from the intended user(s) of the procedures to be performed.
    - Discuss the procedures to be performed with appropriate representatives of the intended user(s).
  - Reading correspondence between the engaging party and other intended user(s) if the engaging party is not the only intended user.
- A30. If the conditions in paragraphs 21 and 22 are not met, it is unlikely that an agreed-upon procedures engagement is able to meet the needs of the engaging party or other intended users. In such circumstances, the practitioner may suggest other services, such as an assurance engagement, that may be more appropriate.
- A31. All the conditions in paragraphs 21 and 22 also apply to procedures that have been added or modified during the course of the engagement.

*Descriptions of Agreed-Upon Procedures and Findings* (Ref: Para. 22 (c))

- A32. The procedures to be performed during the agreed-upon procedures engagement may be prescribed by law or regulation. In some circumstances, law or regulation may also prescribe

the way the procedures or findings are to be described in the agreed-upon procedures report. As set out in paragraph 22(c), a condition of accepting an agreed-upon procedures engagement is that the practitioner has determined that the agreed-upon procedures and findings can be described objectively, in terms that are clear, not misleading, and not subject to varying interpretations.

- A33. Agreed-upon procedures are described objectively, in terms that are clear, not misleading, and not subject to varying interpretations. This means that they are described at a level of specificity sufficient for an intended user to understand the nature and extent and if applicable, the timing, of the procedures performed. It is important to recognise that any term could potentially be used in an unclear or misleading manner, depending on context or the absence thereof. Assuming that the terms are appropriate in the context in which they are used, examples of descriptions of actions that may be acceptable include:
- Confirm.
  - Compare.
  - Agree.
  - Trace.
  - Inspect.
  - Enquire.
  - Recalculate.
  - Observe.
- A34. Terms that may be unclear, misleading, or subject to varying interpretations depending on the context in which they are used, may include, for example:
- Terms that are associated with assurance under the AUASB's Standards such as "present fairly" or "true and fair," "audit," "review," "assurance," "opinion," or "conclusion."
  - Terms that imply expression of an assurance opinion or conclusion such as "we certify," "we verify," "we have ascertained" or "we have ensured" with regard to the findings.
  - Unclear or vague phrases such as "we obtained all the explanations and performed such procedures as we considered necessary."
  - Terms that are subject to varying interpretations such as "material" or "significant."
  - Imprecise descriptions of procedures such as "discuss," "evaluate," "test," "analyse" or "examine" without specifying the nature and extent, and if applicable, the timing, of the procedures to be performed. For example, using the word "discuss" may be imprecise without specifying with whom the discussion is held or the specific questions asked.
  - Terms that suggest that the findings do not reflect factual results such as "in our view," "from our perspective" or "we take the position that."
- A35. For example, a procedure such as "review cost allocations to determine if they are reasonable" is unlikely to meet the condition for terms to be clear, not misleading, or not subject to varying interpretations because:

- The term “review” may be misinterpreted by some users to mean that the cost allocation was the subject of a limited assurance engagement even though no such assurance is intended by the procedure.
  - The term “reasonable” is subject to varying interpretations as to what constitutes “reasonable.”
- A36. In circumstances when law or regulation specifies a procedure or describes a procedure using terms that are unclear, misleading, or subject to varying interpretations, the practitioner may satisfy the condition in paragraph 22(c) by, for example, requesting the engaging party to:
- Modify the procedure or the description of the procedure so that it is no longer unclear, misleading, or subject to varying interpretations.
  - If a term that is unclear, misleading or subject to varying interpretations cannot be amended, for example because of law or regulation, include a definition of the term in the agreed-upon procedures report.

*Compliance with Independence Requirements* (Ref: Para. 22(e), 24(e))

- A37. Paragraph 22(e) applies when the practitioner is required to comply with independence requirements for reasons such as those set out in paragraph A15. Paragraph 22(e) also applies when the practitioner agrees with the engaging party, in the terms of engagement, to comply with independence requirements. For example, the practitioner may have initially determined that the practitioner is not required by relevant ethical requirements, law or regulation, or other reasons to comply with independence requirements. However, when considering engagement acceptance and continuance or agreeing the terms of engagement, the practitioner’s knowledge of the following matters may indicate that a discussion with the engaging party as to whether compliance with certain identified independence requirements is appropriate for the purpose of the agreed-upon procedures engagement:
- The purpose of the agreed-upon procedures engagement;
  - The identity of the engaging party, other intended users and responsible party (if different from the engaging party);
  - The nature, timing and extent of the procedures to be performed; or
  - Other engagements that the practitioner is performing or has performed for the engaging party, other intended users or the responsible party (if different from the engaging party).
- A38. The practitioner may be the auditor of the financial report of the engaging party (or responsible party if different from the engaging party). In such a circumstance, if the practitioner is also engaged to conduct an agreed-upon procedures engagement, intended users of the agreed-upon procedures report may assume that the practitioner is independent for the purpose of the agreed-upon procedures engagement. Therefore, the practitioner may agree with the engaging party that the practitioner’s compliance with the independence requirements applicable to audits of financial report is appropriate for the purpose of the agreed-upon procedures engagement. In such a case, a statement that the practitioner is required to comply with such independence requirements is included in the terms of the engagement, in accordance with paragraph 24(e).

**Agreeing the Terms of the Engagement** (Ref: Para. 24–25)

- A39. When relevant, additional matters may be included in the engagement letter, for example:
- Arrangements concerning the involvement of a practitioner’s expert in some aspects of the agreed-upon procedures engagement.

- Any restrictions on the use or distribution of the agreed-upon procedures report.
- A40. An illustrative engagement letter for an agreed-upon procedures engagement is set out in Appendix 1.
- A41. The practitioner may agree with the engaging party that the procedures to be performed will include quantitative thresholds for determining exceptions. If so, these quantitative thresholds are included in the descriptions of the procedures in the terms of the engagement.
- A42. In some circumstances, law or regulation may prescribe only the nature of the procedures to be performed. In such circumstances, in accordance with paragraph 24(i), the practitioner agrees the timing and extent of procedures to be performed with the engaging party so that the engaging party has a basis to acknowledge that the procedures to be performed are appropriate for the purpose of the engagement.
- A43. In some circumstances, agreeing the terms of engagement and performing the agreed-upon procedures takes place in a linear and discrete manner. In other circumstances, agreeing the terms of engagement and performing the agreed-upon procedures is an iterative process, with changes to the agreed-upon procedures being agreed as the engagement progresses in response to new information coming to light. If procedures that have been previously agreed upon need to be modified, paragraph 25 requires the practitioner to agree the amended terms of engagement with the engaging party. The amended terms of engagement may, for example, take the form of an updated engagement letter, an addendum to an existing engagement letter, or other form of written acknowledgement.

*Recurring Engagements* (Ref: Para. 26)

- A44. The practitioner may decide not to send a new engagement letter or other written agreement for a recurring engagement. However, the following factors may indicate that it is appropriate to revise the terms of the engagement, or to remind the engaging party of the existing terms of the engagement:
- Any indication that the engaging party misunderstands the purpose of the agreed-upon procedures engagement or the nature, timing or extent of the agreed-upon procedures.
  - Any revised or special terms of the engagement, including any changes in the previously agreed-upon procedures.
  - A change in legal, regulatory or contractual requirements affecting the engagement.
  - A change in management or those charged with governance of the engaging party.

**Performing the Agreed-Upon Procedures** (Ref: Para. 28)

- A45. The practitioner may decide to request written representations in some circumstances, for example:
- If the agreed-upon procedures involve enquiries, the practitioner may request written representations on the responses that have been provided verbally.
  - If the engaging party is not the responsible party, the practitioner may agree with the engaging party to include, as an agreed-upon procedure, requests for written representations from the responsible party.

**Using the Work of a Practitioner's Expert** (Ref: Para. 29)

- A46. Using the work of a practitioner's expert may involve the use of an expert to assist the practitioner in:

- Discussing with the engaging party the agreed-upon procedures to be performed. For example, a lawyer may provide suggestions to the practitioner on the design of a procedure to address legal aspects of a contract; or
- Performing one or more of the agreed-upon procedure(s). For example, a chemist may perform one of the agreed-upon procedures such as determining the toxin levels in a sample of grains.

A47. A practitioner's expert may be an external expert engaged by the practitioner or an internal expert who is part of the firm and therefore subject to the firm's system of quality control. The practitioner is entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances and may affect the nature, timing and extent of the practitioner's procedures with respect to matters such as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ASRS.

A48. If the practitioner's expert is performing one or more of the agreed-upon procedure(s), the agreement of the nature, scope and objectives of that expert's work as required by paragraph 29(b) includes the nature, timing and extent of the procedure(s) to be performed by the practitioner's expert. In addition to the matters required by paragraph 29(b), it may be appropriate for the practitioner's agreement with the practitioner's expert to include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A49. The matters noted in paragraph A47 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and the practitioner's external expert is often in the form of an engagement letter.

A50. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 29 at the engagement acceptance or continuance stage.

#### **The Agreed-Upon Procedures Report** (Ref: Para. 30–33)

A51. Appendix 2 contains illustrations of agreed-upon procedures reports.

#### *Subject Matter on which the Agreed-Upon Procedures Are Performed* (Ref: Para. 30(c))

A52. If applicable, to avoid misunderstanding, the practitioner may wish to clarify that the agreed-upon procedures report does not extend to information beyond subject matters on which the agreed-upon procedures are performed. For example, if the practitioner was engaged to perform agreed-upon procedures on an entity's accounts receivable and inventory, the practitioner may wish to include a statement that the agreed-upon procedures report relates only to these accounts and does not extend to the entity's financial report taken as a whole.

*Purpose of the Agreed-Upon Procedures Report* (Ref: Para. 30(d))

- A53. In addition to the statement required by paragraph 30(d), the practitioner may consider it appropriate to indicate that the agreed-upon procedures report is intended solely for the engaging party and the intended users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the agreed-upon procedures report. In some jurisdictions, it may be possible to restrict the use of the agreed-upon procedures report but not its distribution. In other jurisdictions, it may be possible to restrict the distribution of the agreed-upon procedures report but not its use.
- A54. Factors that the practitioner may consider in deciding whether to restrict the distribution or use of agreed-upon procedures report (if permitted to do so) include, for example whether:
- There is an elevated risk of users other than the intended users misunderstanding the purpose of the agreed-upon procedures engagement or misinterpreting the findings.
  - The agreed-upon procedures are designed solely for the use of internal users such as management and those charged with governance of the engaging party.
  - The agreed-upon procedures or findings involve confidential information.

*Agreed-Upon Procedures and Findings* (Ref: Para. 30(n) –30(o))

- A55. If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider:
- Consulting internally (for example, within the firm or network firm);
  - Consulting externally (for example, with the relevant professional body or another practitioner); or
  - Obtaining legal advice,
  - to understand the professional or legal implications of taking any particular course of action.
- A56. There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.
- A57. The practitioner may refer to the date when the agreed-upon procedures were agreed in the terms of the engagement.

*Reference to Practitioner's Expert* (Ref: Para. 31)

- A58. In some circumstances, law or regulation may require a reference, in the agreed-upon procedures report, to a practitioner's expert who performed any of the agreed-upon procedures. For example, such a reference may be required for the purposes of transparency in the public sector. The practitioner may also consider it appropriate in other circumstances, for example, when referring to the practitioner's expert when describing the agreed-upon procedures. Nonetheless, the practitioner has sole responsibility for the findings included in the agreed-upon procedures report, and that responsibility is not reduced by the use of the practitioner's expert. It is important therefore that if the agreed-upon procedures report refers to the practitioner's expert, the report does not imply that the practitioner's responsibility is reduced because of the reference to the practitioner's expert.

**Undertaking an Agreed-Upon Procedures Engagement Together with Another Engagement** (Ref: Para. 34)

A59. A practitioner may be requested to perform other engagements together with the agreed-upon procedures engagement, such as providing recommendations arising from the agreed-upon procedures engagement. Such requests may take the form of one request for the practitioner to perform agreed-upon procedures and make recommendations, and the terms of the various engagements may be set out in a single engagement letter. To avoid misunderstanding, paragraph 34 requires that the agreed-upon procedures report be clearly distinguished from the reports of other engagements. For example, the recommendations may be:

- Provided in a separate document from the agreed-upon procedures report; or
- Included in a document that contains both the agreed-upon procedures report and recommendations but the recommendations are clearly differentiated from the agreed-upon procedures report, for example, by including the agreed-upon procedures report and the recommendations in separate sections of the document.

**Documentation** (Ref: Para. 35)

A60. Documentation of the nature, timing and extent of the agreed-upon procedures performed may include a record of, for example:

- The identifying characteristics of the subject matter(s) on which the agreed-upon procedures are performed. Identifying characteristics will vary depending on the nature of the agreed-upon procedure and the subject matter(s) on which the agreed-upon procedure is performed. For example:
  - For a procedure on purchase orders, the practitioner may identify the documents selected by their dates and unique purchase order numbers.
  - For a procedure requiring selection of all items over a specific amount from a given population, the practitioner may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register for a specific period, all timesheets for hours recorded over a certain number for specified months or every tenth item on a specific list).
  - For a procedure requiring enquiries of specific personnel, the practitioner may record the dates of the enquiries, the names and job designations of the personnel and the specific enquiries made.
  - For an observation procedure, the practitioner may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.
- Who performed the agreed-upon procedures and the date such procedures were performed.
- Who reviewed the agreed-upon procedures performed, and the date and extent of such review.

## Appendix 1

(Ref: Para A40)

### Illustrative Engagement Letter for an Agreed-Upon Procedures Engagement

The following is an example of an engagement letter for an agreed-upon procedures engagement that illustrates the relevant requirements and guidance contained in this ASRS. This letter is not authoritative and is intended only to be a guide that may be used in conjunction with the considerations outlined in this ASRS. It will need to be adapted according to the requirements and circumstances of individual agreed-upon procedures engagements. It is drafted to refer to an agreed-upon procedures engagement for a single reporting period and would require adaptation if intended or expected to apply to a recurring engagement as described in this ASRS. It may be appropriate to seek legal advice that any proposed letter is suitable.

To [Engaging Party]

You have requested that we perform an agreed-upon procedures engagement on the procurement of [xyz] products. This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. [In performing the agreed-upon procedures engagement, we will comply with Accounting Professional & Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), which does not require us to be independent<sup>7</sup>/.In performing the agreed-upon procedures engagement, we will comply with Accounting Professional & Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) including independence equivalent to [audit and review engagements<sup>8</sup>/assurance engagements other than audit and review engagements<sup>9,10</sup>].

An agreed-upon procedures engagement performed under ASRS 4400 involves our performing the procedures agreed with you, and communicating the findings in the agreed-upon procedures report. Findings are the factual results of the agreed-upon procedures performed. You [and if relevant, other parties] acknowledge that the procedures are appropriate for the purpose of the engagement. We make no representation regarding the appropriateness of the procedures. This agreed-upon procedures engagement will be conducted on the basis that [Responsible Party] is responsible for the subject matter on which the agreed-upon procedures are performed. Further, this agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

The procedures that we will perform are solely for the purpose of assisting you in determining whether your procurement of [xyz] products is compliant with your procurement policies.<sup>11</sup> Accordingly, our report will be addressed to you and our report may not be suitable for another purpose.

We have agreed to perform the following procedures and report to you the findings resulting from our work:

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<sup>7</sup> This sentence replaces the following international text that has been deleted: In performing the agreed-upon procedures engagement, we will comply with [describe the relevant ethical requirements], which does not require us to be independent.

<sup>8</sup> APES 110 Code of Ethics for Professional Accountants (including Independence Standards) [as referenced in ASA 102], Part 4A

<sup>9</sup> APES 110 Code of Ethics for Professional Accountants (including Independence Standards) [as referenced in ASA 102], Part 4B

<sup>10</sup> This sentence is an addition to the international text and provides example wording where the practitioner and engaging party have agreed independence.

<sup>11</sup> In this case, the engaging party is also the intended user.

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

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- Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.
- For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether each contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”
- For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the contractor and determine whether the amount ultimately paid is the same as the agreed amount in the contract.

The procedures are to be performed between [Date] and [Date].

**Our Agreed-Upon Procedures Report**

As part of our engagement, we will issue our report, which will describe the agreed-upon procedures and the findings of the procedures performed [insert appropriate reference to the expected form and content of the agreed-upon procedures report].

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement, including the specific procedures which we have agreed will be performed and that they are appropriate for the purpose of the engagement.

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Firm’s name]

Acknowledged and agreed on behalf of [Engaging party’s name] by:

[Signature]

[Name and Title]

[Date]

## Appendix 2

(Ref: Para A51)

### Illustrations of Agreed-Upon Procedures Reports

#### Illustration 1

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the addressee and the only intended user. The engaging party is not the responsible party. For example, the regulator is the engaging party and intended user, and the entity overseen by the regulator is the responsible party.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is no restriction on the use or distribution of the report.
- There are no independence requirements with which the practitioner is required to comply.
- A quantitative threshold of \$100 for reporting exceptions in Procedure 3 has been agreed with the engaging party.

#### AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS

To [Addressee]

#### Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting [Engaging Party] in determining whether its procurement of [xyz] products is compliant with its procurement policies and may not be suitable for another purpose.

#### Responsibilities of the Engaging Party and the Responsible Party

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Responsible Party], as identified by [Engaging Party], is responsible for the subject matter on which the agreed-upon procedures are performed.

#### Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

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*Professional Ethics and Quality Control*

We have complied with the ethical requirements in [describe the relevant ethical requirements]. For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Procedures and Findings**

We have performed the procedures described below, which were agreed upon with [Engaging Party], on the procurement of [xyz] products.

	<b>Procedures</b>	<b>Findings</b>
1	Obtain from management of [Responsible Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products ("listing") and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1].  Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]'s "Pre-qualified Contractors List."	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]'s "Pre-qualified Contractors List."
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Responsible Party] to the contractor and determine whether the amount ultimately paid is within \$100 of the agreed amount in the contract.	We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Responsible Party] to the contractor.  We found that the amounts ultimately paid were within \$100 of the agreed amounts in all of the 37 contracts with no exceptions noted.

[Practitioner's signature]

[Date of practitioner's report]

[Practitioner's address]

**Illustration 2**

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The engaging party is the responsible party. The intended user, who is different from the engaging party, is an addressee in addition to the engaging party. For example, the regulator is the intended user and the entity overseen by the regulator is the engaging party and responsible party.
- Exceptions were found.
- The practitioner engaged a practitioner's expert to perform an agreed-upon procedure and a reference to that expert is included in the agreed-upon procedures report.
- There is a restriction on the use and distribution of the report.
- The practitioner is the auditor of the financial report of the engaging party (who is the responsible party). The practitioner has agreed with the engaging party that the practitioner's compliance with the independence requirements applicable to audits of financial reports is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial reports for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

**AGREED-UPON PROCEDURES REPORT ON PROCUREMENT OF [XYZ] PRODUCTS**

To [Addressees]

**Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution**

Our report is solely for the purpose of assisting [Intended User] in determining whether the [Engaging Party]'s procurement of [xyz] products is compliant with [Intended User]'s procurement policies and may not be suitable for another purpose. This report is intended solely for [Engaging Party] and [Intended Users], and should not be used by, or distributed to, any other parties.

**Responsibilities of the Engaging Party**

[Engaging Party] has acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

[Engaging Party (also the Responsible Party)] is responsible for the subject matter on which the agreed-upon procedures are performed.

**Practitioner's Responsibilities**

We have conducted the agreed-upon procedures engagement in accordance with the Australian Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves our performing the procedures that have been agreed with [Engaging Party], and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

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Had we performed additional procedures, other matters might have come to our attention that would have been reported.

**Professional Ethics and Quality Control**

We have complied with the ethical requirements in [describe the relevant ethical requirements] and the independence requirements in accordance with [describe the relevant independence requirements].<sup>12</sup>

Our firm applies Australian Standard on Quality Control ASQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance Engagements and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Procedures and Findings**

We have performed the procedures described below, which were agreed upon with [Engaging Party] in the terms of engagement dated [DATE], on the procurement of [xyz] products.

	<b>Procedures</b>	<b>Findings</b>
1	Obtain from management of [Engaging Party] a listing of all contracts signed between [January 1, 20X1] and [December 31, 20X1] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X1] and [December 31, 20X1].  Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000.

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<sup>12</sup> For example, if the APESB Code is the relevant ethical requirements and Part 4A of the APESB Code is the relevant independence requirements, this sentence may be worded along the following: “We have complied with the ethical requirements of the Accounting Professional & Ethical Standards Board *Code of Ethics for Professional Accountants (including Independence Standards)* (APESB Code) and the independence requirements in Part 4A of the APESB Code.”

**Standard on Related Services ASRS 4400**  
***Agreed-Upon Procedures Engagements***

	<b>Procedures</b>	<b>Findings</b>
2	For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.” For records of bidding that were submitted in [foreign language], translate the records of bidding with the assistance of a translator engaged by the practitioner before performing the comparison.	<p>We inspected the records of bidding related to the 37 contracts valued at over \$25,000. Of the records of bidding related to the 37 contracts, 5 were submitted in [foreign language]. We engaged a translator to assist us in the translation of these 5 records of bidding.</p> <p>We found that 36 of the 37 contracts were subject to bidding by at least 3 contractors from [Engaging Party]’s “Pre-qualified Contractors List.”</p> <p>We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.</p> <p>The engagement of the translator to assist us in the translation of the records of bidding does not reduce our responsibility for performing the procedures and reporting the findings.</p>
3	For each identified contract valued at over \$25,000 on the listing, compare the amount payable per the signed contract to the amount ultimately paid by [Engaging Party] to the supplier and determine whether the amount ultimately paid is the same as the agreed amount in the contract.	<p>We obtained the signed contracts for the 37 contracts valued at over \$25,000 on the listing and compared the amounts payable in the contracts to the amounts ultimately paid by [Engaging Party] to the supplier.</p> <p>We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X1.</p>

[Practitioner’s signature]

[Date of practitioner’s report]

[Practitioner’s address]



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Our ref Comment submission on  
AUASB Exposure Draft 01/20,  
Agreed-Upon Procedures  
Engagement  
Contact Jennifer Travers  
(+61 3 9288 5015)

11 May 2020

Dear Sir

**Comment submission on AUASB Exposure Draft 01/20: Proposed Standard on Related Services ASRS 4400, *Agreed-Upon Procedures Engagements***

We are pleased to have the opportunity to respond to the Australian Auditing and Assurance Standards Board (AUASB) Exposure Draft 01/20: Proposed Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements* (ED 01/20). The letter represents the views of KPMG Australia.

We understand that this proposed Standard on Related Services represents the Australian equivalent of the International Auditing and Assurance Standards Board's (IAASB) revised ISRS 4400 *Agreed-Upon Procedures Engagements* and will replace the current ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings* issued by the AUASB in July 2013.

Our overarching comments are set out below. Please refer to Appendix 1 to this letter for our views and responses to the specific questions raised by the AUASB for comment.

**Overarching comments**

Overall, KPMG Australia is supportive of the adoption of ED 01/20 of the proposed Standard on Related Services.

We are supportive of the overall direction of the changes proposed to align with ISRS 4400 and believe that these broadly achieve the principal objective of keeping pace with the significant changes that have occurred in the business environment driving the demand for AUP engagements on both financial and non-financial subject matters.

We believe that our comment submission on the AUASB Consultation Paper, *Agreed-Upon Procedures (AUP) Engagements* in February 2019 have mostly been taken into account and is reflected in ED 01/20.

Our views and comments are found below in response to each question.

Should you wish to clarify any aspect of KPMG Australia's submission, I would be pleased to discuss. My contact details are [jltravers@kpmg.com.au](mailto:jltravers@kpmg.com.au) or +61 3 9288 5015.

Yours faithfully

A handwritten signature in black ink, reading "Jennifer Travers". The signature is written in a cursive, flowing style.

Jennifer Travers  
*Director*

**Appendix 1 – KPMG’s Australia’s views on specific matters highlighted by the AUASB in the Explanatory Memorandum: *Exposure Draft 01/20: Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements***

**Exposure Draft Questions**

The AUASB is particularly interested in stakeholders’ views on the following technical matters in the exposure draft:

*Independence – Requirement (Refer paragraph 9(a) of this Explanatory Memorandum for more information):*

- 1 Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?

We support ED 01/20 not requiring independence for an AUP engagement. This allows for much broader use of this style of engagement which reflects current demand in the Australian market.

- 2 Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other assurance engagements’, unless the engaging party has explicitly agreed to modified independence requirements?

Given that in an AUP engagement the findings are capable of being objectively verified, and no opinion is expressed by the practitioner, we do not believe it is necessary to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other assurance engagements’ unless the engaging party has explicitly agreed to modified independence requirements.

- 3 Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.

No.

- 4 If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

N/A

*Independence – Reporting Requirements (Refer paragraph 9(b) of this Explanatory Memorandum for more information):*

- 5 Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?

We support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent. This provides transparency to the market that the practitioner has considered independence requirements where relevant to the engagement.

We support the statement used in 30(l) (i) when there are no independence requirements with which the practitioner is required to comply.

- 6 If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?

N/A

- 7 Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.

No.

- 8 If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

N/A

*Restriction on use (Refer paragraph 9(c) of this Explanatory Memorandum for more information):*

- 9 Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?

Yes, we are generally supportive of ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose.

The requirement to identify all intended users at the outset of the engagement can sometimes be challenging, and limits the usefulness of the AUP report to the client if they are unable to provide it to other parties after the engagement terms have been agreed.

We also highlight that the statement that the report may not be suitable for another purpose is derived from ISA 800 *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, in which the equivalent requirement is to include an Emphasis of Matter paragraph. Whilst such a paragraph would not be appropriate in an AUP report, as no opinion/conclusion is provided, it would be helpful for the standard to emphasise that the statement must be sufficiently prominent, e.g. to include a heading, and language that makes clear that this is a “warning”.

- 10 Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter? Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.

We prefer that the mandated restriction paragraph in the AUP report is removed for the reasons set out in response to question 9 above.

- 11 Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.

No.

- 12 If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

N/A

*Professional judgement (Refer paragraph 9(d) of this Explanatory Memorandum for more information):*

- 13 Do stakeholders support the way in which the exercise of professional judgement is dealt with in ED 01/20? If not, why not?

Yes, we support the way in which the exercise of professional judgement is dealt with in ED 01/20.

In addition, the AUASB is also interested in stakeholders' views on:

- 14 Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

We are not aware of any relevant laws or regulations that have been omitted.

- 15 Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

- 16 Whether there are any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

No.

- 17 What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:

- a. Where those costs are likely to occur;
- b. The estimated extent of costs, in percentage terms (relative to related services fee); and
- c. Whether expected costs outweigh the benefits to the users of related services?

We do not expect any additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard.

- 18 Are there any other significant public interest matters that stakeholders wish to raise?

No.

## Other Comments

We have noted the below for your consideration.

Relevant paragraphs	Other comments
Paragraph 13(a), 13(b), 24(f)(i), 24(g), 30(e)(i), 30e(iii)	<p>These paragraphs use the term ‘other parties’; however, the term ‘other parties’ is not defined. All of these paragraphs refer to the guidance in paragraph A10 which states that “....the procedures <i>may</i> be agreed with intended users in addition to the engaging party”.</p> <p>A10 does not use the term ‘other parties’.</p> <p>This appears to be an inconsistency in terminology.</p>
Paragraph 24(b)	<p>We note that paragraph 24(b) requires the engagement letter to include “the purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party”. As noted above, this is sometimes challenging at the outset due to timing.</p> <p>Whilst we might be able to include a group of intended users, we may not be able to individually name an entity. A common example is in a transaction where a successful bidder may only be identified after the engagement contract has been signed and the procedures have been performed and yet they are the intended user for the purpose of the agreed-upon procedures engagement.</p>

Paragraph 32	<p>The paragraph talks about the practitioner providing a summary of findings in addition to the description of findings.</p> <p>It is not clear why a summary of findings might be provided or when would it be appropriate to include a summary of the findings in an AUP report.</p> <p>Given this engagement is to perform very specific procedures and report on them, a summary has the potential for misunderstanding and a risk that readers do not read the report in its entirety.</p>
Paragraph A37	The end of the last bullet point is missing a full stop.
Paragraph A55	The last bullet point which reads ‘ <i>to understand the professional or legal implications of taking any particular course of action</i> ’ is not clear and appears to be missing part of the phrase. Should this read the same as the phrase contained in paragraph A20: “ <b><i>obtaining legal advice</i></b> to understand the professional.....”?
Illustration 2 of Appendix 2	The header “Professional Ethics and Quality Control” is not in italics whereas it is in Illustration 1.

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007

8 May 2020

Dear Chairman

**Re: Exposure Draft ED 01/20 - Proposed Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements***

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to the Australian Auditing and Assurance Standards Board (AUASB) on the AUASB's Exposure Draft ED 01/20 Proposed Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements*

We support the need for a revised standard that meets the needs of users and the AUASB's policy to only amend or supplement ISRSs when there are compelling reasons to do so.

Please refer to Appendix 1 for our responses to the specific comments posed by the AUASB within ED 01/20.

In addition, we have included comments relating to specific paragraphs within the proposed standard in Appendix 2.

If you have any queries in relation to this response, please do not hesitate to contact me on 02 9322 3434.

Yours sincerely

Gareth Bird  
Partner  
Audit and Assurance Quality Leader  
*(signed in my capacity as a Partner at Deloitte and not as an AUASB Board member)*

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## Appendix 1

Responses to specific questions posed with ED 01/20

### *Independence – Requirement*

- 1. Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?**

We support not having an independence requirement for an AUP as this aligns the Australian standard with the International standard.

- 2. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other assurance engagements’, unless the engaging party has explicitly agreed to modified independence requirements?**

Our preference is not to maintain the approach in the extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other assurance engagements’, unless the engaging party has explicitly agreed to modified independence requirements.

Refer to our response to Question 1 above.

- 3. Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.**

We have no other independence pre-condition options other than those already addressed in Questions 1 and 2 above.

- 4. If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of the EM) to modify ED 01/20 (based on revised ISRS 4400)?**

In our view there are no compelling reasons which require modification to ED 01/20 with respect to not requiring independence for an AUP engagement.

### *Independence – Reporting Requirements*

- 5. Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?**

We support the proposed statements in paragraph 30(I)(i) and 30(I)(ii).

**Appendix 1 (continued)**

- 6. If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?**

Refer to Question 2 above, we do not support maintaining the approach adopted in extant ASRS 4400 in relation to independence.

- 7. Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.**

We do not consider that there are other independence reporting options.

- 8. If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of the EM) to modify ED 01/20 (based on revised ISRS 4400)?**

We support ED 01/20 pertaining to this matter and do not consider there to be compelling reasons to modify ED 01/20.

***Restriction on use***

- 9. Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?**

We do not support the ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed.

We acknowledge that the AUASB's policy is to adopt the IAASB's international standards, unless there are compelling reasons not to do so; and to amend the standards only when there are compelling reasons to do so. However we recognise that in the Explanatory Memorandum to Exposure Draft 01/20: *Proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements* that the AUASB considered in their submission to the IAASB, that the use of an AUP report should be restricted to parties that have agreed to the procedures performed or have been identified as intended users in the report. We continue to support this position as nothing has fundamentally changed that would suggest that restricting the use of the AUP report is no longer applicable.

We however note that the rationale for the IAASB not having this restriction in the standard is because in some jurisdictions, it may be possible to restrict the use of the AUP report but not its distribution and in other jurisdictions, it may be possible to restrict the distribution of the AUP report but not its use.

## Appendix 1 (continued)

Considering this reason and the AUASB's original position, we believe that the Australian current practices provide the compelling reason to amend the proposed standard.

We also highlight that the precondition of an AUP engagement is that the procedures being performed have been agreed by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. In practice, for the practitioner to understand the purpose and therefore be able to conclude on whether the engagement is fit for purpose, the key is understanding the intended users and what they expect to get out of the engagement.

The paragraphs below in ED 01/20 appear to support the need for restriction of use as requirement:

- Paragraph 4 of ED 01/20 states that, "In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the **engaging party** has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The **engaging party** and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.
- Paragraph 13 (a) defines agreed-upon procedures as procedures that have been agreed to by the **practitioner** and the **engaging party** (and if relevant, other parties). The application guidance in paragraph A10 of ED 01/20 states that "In some circumstances, the procedures may be agreed with intended users in addition to the engaging party. Intended users other than the engaging party may also acknowledge the appropriateness of the procedures."
- Paragraph A54 (bullet one and two), will be applicable for most engagements and therefore most practitioners will end up with a restriction of distribution or use.

In the paragraphs above, it is clear that an AUP engagement is for a specific purpose and intended audience. It is then expected that the recipient and/or user of the AUP report are required to understand the terms of the engagement. This can only happen if either they were a party to the engagement letter or before they receive a copy and rely on the report, they understood that the engagement was for a particular purpose and may not be fit for their purpose. We believe therefore, that the better approach is to directly call out the restriction on use, rather than rely on the more subtle or indirect approach adopted by the IAASB as we understand the reason for them not taking the direct approach.

- 10. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.**

Yes, see our response to Question 9.

## Appendix 1 (continued)

- 11. Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.**

We are not aware of any other restrictions not already covered by Questions 9 and 10.

- 12. If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?**

Based on our response to Question 9, we believe there are compelling reasons to modify ED 01/20 to incorporate a requirement for practitioners to restrict the use of the AUP report to parties that have agreed to the procedures to be performed.

## *Professional judgement*

- 13. Do stakeholders support the way in which the exercise of professional judgement is dealt with in ED 01/20? If not, why not?**

We support how the exercise of professional judgement is dealt with in ED 01/20. We note that paragraph 18 of ED 01/20 requires that “the practitioner shall exercise professional judgement in accepting, conducting and reporting on an agreed-upon procedures engagement, considering the circumstances of the engagement”.

Our view is that the professional judgement to be applied in the conduct of the engagement would be limited, and we note that paragraph A22 is clear in providing appropriate guidance on what the exercise of professional judgement would entail, and would be limited to, in relation to the conduct of the AUP engagement.

As paragraph A22 does not suggest that practitioners should use professional judgement in modifying how procedures are conducted, we accept that practitioners performing the same procedures should still get the same results, notwithstanding the broader requirement of paragraph 18.

## Other Questions

*Stakeholders are asked to respond to the AUASB on the following questions in order to inform us when considering if any compelling reasons exist:*

- 14. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?**

None that we are aware of.

## Appendix 1 (continued)

**15. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

None that we are aware of.

**16. Whether there are any principles and practices considered appropriate in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

None that we are aware of.

**17. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, the AUASB would like to understand:**

- a) Where those costs are likely to occur;
- b) The estimated extent of costs, in percentage terms: and
- c) Whether expected costs outweigh the benefits to the users of AUP Reports?

We do not see the application of the requirements in the proposed standard resulting in additional significant costs.

**18. Are there any other significant public interest matters that constituents wish to raise?**

*Stakeholder Engagement*

Due to the substantive revisions to extant ASRS 4400, and the wide range of stakeholders (e.g. regulators, funding agencies, landlords) that use the proposed standard and AUP reports for a variety of reasons, the education of stakeholders is essential to the successful implementation of the proposed standard.

This is especially the case with respect to the key areas relating to independence and the restriction of use.

It is important for the AUASB to consider how, in publishing and promoting the final proposed ED 01/20, it will clearly communicate the key messages about these changes to all relevant stakeholders so as to remove the burden of ongoing and case by case education on practitioners.

## Appendix 2

Table 1 : Proposed Changes

REF	Paragraph detail	Proposed amendments	Reasons
Para 6	An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any for	An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion, <b>a review</b> or an assurance conclusion in any for	Propose insert review to align with the preceding sentence.
Para 13 (a)	(a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties). (Ref: Para. A10)	(a) Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other <b>parties intended users</b> ). (Ref: Para. A10)	Proposed change so as to align to paragraph A10.
Para 13 (b)	(b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)	(b) Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other <b>parties intended users</b> ) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report. (Ref: Para. A10)	Proposed change so as to align to paragraph A10.
Para 13 (f)	(f) Findings – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in this ASRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. (Ref: Para. A12–A13)	(f) Findings – <b>Findings are the</b> factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. <b>References to findings in this ASRS exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make.</b> (Ref: Para. A12–A13)	<ul style="list-style-type: none"> <li>Proposed change so as to align to the format of the other definitions.</li> <li>The second sentence seems to suggest the practitioner may make opinions, conclusions or recommendations in an AUP, which may lead to undue confusion or misunderstanding. Perhaps this can be moved to application guidance indicating that it is not expected that</li> </ul>

			the practitioner will be providing opinions, conclusions or recommendations.
Para 22 b.	The purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party;	The purpose of the engagement and the intended users of the agreed-upon procedures report as <b>identified determined</b> by the engaging party;	We believe that the engaging party determines the purpose rather than identifying the purpose of the engagement and therefore recommend replacing that term.
Para 22 g.	Reference to the expected form and content of the agreed-upon procedures report.	Reference to the expected form and content of the agreed-upon procedures report <b>and a statement that there may be circumstances in which a report may differ from its expected form and content;</b>	There may be circumstances in which the agreed-upon procedures report may differ from its expected form and content for example, in most cases the template report does not take into account exceptions and this may change depending on the outcome of the engagement.
Para 23	If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take necessary action.	If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the <b>engagement partner practitioner</b> shall <b>communicate that information promptly to the firm, so that the firm and the engagement partner can</b> take necessary action.	It is not clear why the emphasis is on the communication to the firm as all the requirements for engagement acceptance and continuance all reference to the practitioner.
Para. 24	Acknowledgement by the engaging party (and if relevant, other parties) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)	Acknowledgement by the engaging party (and if relevant, other <b>parties intended users</b> ) that the agreed-upon procedures are appropriate for the purpose of the engagement; (Ref: Para. A10)	Proposed change so as to align to paragraph A10.
Para. 24	(h) Identification of the addressee of the agreed-upon procedures report.	(h) Identification of the addressee (s) of the agreed-upon procedures report <b>, who is the engaging party and where applicable, other intended user (s).</b>	We propose that the AUASB provide guidance that clarifies that the engaging party will always be the addressee at the minimum.  In addition, acknowledge that there may be other addressees in addition to the

			engaging party but this may not always be the case.
Para. 28	The practitioner shall consider whether it is necessary to request written representations (Ref: Para. A24)	The practitioner shall <del>consider</del> <b>evaluate</b> whether it is necessary to request written representations (Ref: Para. A45)	Using the term ‘consider’ tends to dilute the requirement and doesn’t convey the expected action.
Para. 30	(m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQC 1;	(m) A statement that the firm of which the practitioner is a member applies ASQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ASQC 1; <b>and for professional requirements other than ASQC 1, If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ASQC 1;</b>	<ul style="list-style-type: none"> <li>Based on the first sentence it is clear that the practitioner would need to consider what professional requirements they have complied with.</li> <li>Is there a need for the AUASB to provide examples of which professional requirements or requirements in law or regulations are considered at least demanding?</li> <li>It is not clear why this paragraph references to professional accountant as this is not defined in the standard.</li> </ul>
Para. A55	If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider: <ul style="list-style-type: none"> <li>Consulting internally (for example, within the firm or network firm);</li> <li>Consulting externally (for example, with the relevant professional body or another practitioner); or</li> <li>Obtaining legal advice,</li> </ul>	If the practitioner is unable to describe the agreed-upon procedures or findings without including confidential or sensitive information, the practitioner may consider: <ul style="list-style-type: none"> <li>Consulting internally (for example, within the firm or network firm);</li> <li>Consulting externally (for example, with the relevant professional body or another practitioner); or</li> </ul>	It appears that the fourth bullet should be part of the third bullet point.

	<ul style="list-style-type: none"> <li>• to understand the professional or legal implications of taking any particular course of action.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtaining legal advice, to understand the professional or legal implications of taking any particular course of action.</li> </ul>	
Para. A56.	<p>There may be circumstances when the fact that previously agreed-upon procedures have not been performed or have been modified is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner may identify, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.</p>	<p><del>There may be</del> In circumstances <del>where the fact that</del> previously agreed-upon procedures have not been performed or have been modified, it is important to the intended users' consideration of the agreed-upon procedures and findings. For example, this may be the case when the procedures are set out in law or regulation. In such circumstances, the practitioner <del>may identify</del>ies, in the agreed-upon procedures report, the procedures agreed in the original terms of the engagement which could not be performed or were modified, and why that has arisen.</p>	<p>Considering the nature of an AUP engagement, it is expected that when certain procedures are modified or cannot be performed, this information will always be relevant to the intended users.</p>
Para. A60	<p>For a procedure requiring enquiries of specific personnel, the practitioner may record the dates of the enquiries, the names and job designations of the personnel and the specific enquiries made</p>	<p>N/A – see comment</p>	<p>In practice, it is common to have 'enquiry' as a procedure. However, considering the definition for findings in ED 01/20, the AUASB should consider adding guidance on how the findings from an 'enquiry' procedure would look like so as to meet the requirement of 'being capable of being objectively verified'.</p> <p>A proposal would in addition to including the information in paragraph A60, the AUASB can consider adding that the practitioner may also record the exact outcome/response to the enquiry in the report. In addition, it would be useful if an illustrative example relating to an enquiry type procedure could be included.</p>

Appendix 2 Illustration 2 Procedure 2	Findings column “...We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline...”	We found 1 contract valued at \$65,000 that was not subject to bidding. Management has represented to us that the reason that this contract was not subject to bidding was due to an emergency to meet a contractual deadline.	Propose this is deleted as it does not meet the definition of a finding in ED 01/20, it is not directly linked to the procedure and it may set an expectation from users that this is acceptable.  To address the fact that in practice clients commonly expect the practitioner to include the reasons for exceptions, we suggest that the proposed standard be updated to include in the example procedures, a procedure for obtaining an explanation/representation for an exception and an example of appropriate wording as a finding for this procedure.
Appendix 2 Illustration 2 Procedure 3	Findings column We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X8.	We found that the amounts payable in the signed contracts differed from the amounts ultimately paid by [Engaging Party] for 26 of the 37 contracts. In all these cases, management has represented to us that the difference in the amounts were to accommodate an increase of 1% in the sales tax rate of [jurisdiction] that became effective in September 20X8.	Same rationale as above.

## Appendix 2 (continued)

Table 2 : Editorial Comments

REF	Paragraph detail	Proposed amendments	Reasons
Para 3	Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms that perform <b>Related Services Engagements</b> . The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)	Quality control systems, policies and procedures are the responsibility of the firm. ASQC 1 applies to firms that perform <b>Related Services Engagements</b> . The provisions of this ASRS regarding quality control at the level of individual agreed-upon procedures engagements are premised on the basis that the firm is subject to ASQC 1 or requirements that are at least as demanding. (Ref: Para. A3–A8)	Changes made to align to paragraph A3. Capitalisation in this context is generally used when referencing to the name of the standard.
Para A34	Terms that imply expression of an assurance opinion or conclusion such as “we certify,” “we verify,” “we have ascertained” or “we have ensured” with regard to the findings	Terms that imply expression of an assurance opinion or conclusion such as “we <b>certified</b> ,” “we <b>verified</b> ,” “we have ascertained” or “we have ensured” with regard to the findings	Proposed change to align to the rest of the sentence.
Appendix 2 Illustration 2 Procedure 2	Title : Illustrations of Agreed-Upon Procedures Reports	<b>Illustrations of Reports for Agreed-Upon Procedures Engagements</b>	To align to the title for Appendix 1.



The Chair  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne VIC 8007

11 May 2020

Dear Prof Simnett

**Exposure Draft 01/20: Proposed Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements***

We appreciate the opportunity to comment on the above mentioned Exposure Draft.

We support the proposed standard and have included our responses to the specific questions included in the Request for Comment in the Appendix to this letter.

We would be pleased to discuss our comments with you. Please contact me on (03) 8603 3285 or Avril Trent on (02) 8266 8097 should you require any further information.

Yours sincerely

Valerie Clifford  
Assurance Risk & Quality Partner



## Appendix

### Response to the Request for Comments questions: ED 01/20

**1. Do stakeholders support ED1/20 not requiring independence for an AUP engagement? If not, why not?**

We support the proposed standard not requiring independence for an AUP engagement, as these engagements do not provide any assurance, and should therefore not broadly require a higher level of independence than other non-assurance engagements.

In our experience, AUP engagements specifically requiring independence of the practitioner are quite rare.

**2. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to “other assurance engagements”, unless the engaging party has explicitly agreed to modified independence requirements?**

No, for the reasons referred to in question 1 above.

**3. Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.**

None noted.

**4. If stakeholders do not support ED01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of the EM) to modify ED01/20 (based on revised ISRS 4400)?**

Not applicable.

**5. Do stakeholders support ED01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?**

Yes, we support the statement being included in the AUP report. In the majority of engagements where independence is not required, making a statement in the report that no independence is required provides clarification to the user and is consistent with the statement in the report that no assurance is provided in the engagement.



Where independence is required or it has been agreed, it is useful to draw attention in the AUP report to the reason for that independence requirement and to link to what the relevant independence requirements are.

- 6. If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?**

Not applicable.

- 7. Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.**

None noted.

- 8. If stakeholders do not support ED01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of the EM) to modify ED01/20 (based on revised ISRS 4400)?**

No compelling reasons identified.

- 9. Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?**

We support ED01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed for the following reasons:

- The approach provides more flexibility for circumstances where it is impractical to obtain the agreement for the procedures to be performed from all parties (other than the engaging party) upfront;
- The ED still provides the option of including a restriction in use where the practitioner believes there is a need for such restriction;
- The ED also provides the option of requiring parties other than the engaging party to agree both the procedures to be performed and to confirm that the procedures are appropriate for the purpose of the engagement;
- In addition, the report includes:
  - A full description of the procedures that have been performed;

- A statement that the engaging party (and other parties, where relevant) have acknowledged that the procedures are appropriate for the purpose of the engagement;
- A statement that the practitioner makes no representation on the appropriateness of the procedures.

In practice, AUP reports are very often required to be shared/used by parties who have not agreed the procedures upfront. The approach in the ED therefore provides adequate flexibility to the practitioner in these circumstances.

**10. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have agreed to the procedures to be performed or have been specifically included as users in the engagement letter? Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.**

No. For the reasons described in question 9 above, we believe that the more flexible approach is preferable.

**11. Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.**

None noted.

**12. If stakeholders do not support ED01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of the EM) to modify ED01/20 (based on revised ISRS 4400)?**

Not applicable.

**13. Do stakeholders support the way in which the exercise of professional judgement is dealt with in ED01/20? If not, why not?**

We agree with the way in which professional judgement is dealt with in the ED. In particular, the examples provided of how professional judgement would be applied during the various phases of the engagement are very useful.

*In addition the AUASB is also interested in stakeholders views on:*

- 14. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?**

None noted

- 15. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard**

None noted

- 16. Whether there are any principles and practices considered appropriate in maintaining or improving audit quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

None noted

- 17. What, if any are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:**

- a) Where those costs are likely to occur;**
- b) The estimated extent of the costs, in percentage terms (relative to audit fee); and**
- c) Whether expected costs outweigh the benefits to the users of audit services?**

No significant additional costs expected as a result of the proposed amendments.

- 18. Are there any other significant public interest matters that stakeholders wish to raise?**

No additional matters to raise.



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The Chairman  
Australian Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

17 April 2020

Dear Roger

Exposure Draft ED 01/20 Proposed Standard on Related Services ASRS 4400 Agreed Upon Procedures ("ED 01/20")

Ernst & Young welcomes the opportunity to offer its views on the Exposure Draft of proposed Standard on Related Services ASRS 4400 Agreed-Upon Procedures Engagements issued by the Australian Auditing and Assurance Standards Board (AUASB). Please find below our responses to the specific questions raised by the AUASB.

#### Independence – Requirement

1. Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?
2. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to 'other assurance engagements', unless the engaging party has explicitly agreed to modified independence requirements?
3. Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.
4. If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

We agree with there not being a precondition for the practitioner to be independent when performing Agreed Upon Procedures (AUP) engagements.

Notwithstanding the fact that independence may not be required by the relevant ethical requirements, we agree that the practitioner's independence may be required or expected as a term of the engagement.

We do not see a need to maintain the approach in extant ASRS 4400. We believe that the independence approach adopted in ED 01/20 reflects the spectrum of AUP engagements whereby some but not all scenarios warrant the practitioner to be independent.

There are no other independence pre-condition options that are not covered by questions 1 and 2 above.

Independence – Reporting Requirements:

5. Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?
6. If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?
7. Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.
8. If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

When the practitioner is independent, we are supportive of the new requirement for the practitioner to include a statement in the AUP report asserting their independence and the basis thereof. We strongly believe that independence should not be asserted without also including the underlying basis, as the basis may vary depending on the relevant ethical requirements in the jurisdiction or the terms of the engagement.

When independence is not required by the relevant ethical requirements or by the terms of the AUP engagement, we agree that the practitioner should not be required to make an independence determination and are supportive of the new requirement for the practitioner to include in the AUP report a statement that there are no independence requirements with which the practitioner is required to comply. We have this view not only because of the complexity that may be involved in making a determination of independence, but also because, in these circumstances, the independence requirements that the practitioner is to measure their independence against may not be known or defined.

In particular, the APES 110 Code of Ethics does not define independence in the context of an AUP engagement. Accordingly, when the APES 110 Code of Ethics comprises the relevant ethical requirements for an AUP engagement, we do not believe that it would be appropriate for the practitioner to be required or otherwise expected to make an independence determination.

There are no other independence reporting options that are not covered by questions 5 and 6.

Restriction on use:

9. Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?
10. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.
11. Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.
12. If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?

We agree with the removal of the requirement to restrict the report and to leave the determination as to whether restrictions are necessary to the practitioner, after considering the facts and circumstances of the engagement. We also believe that the application material in paragraph A54 is useful to assist the practitioner in making this determination. We do not see a requirement to maintain the approach exactly as is in extant ASRS 4400 as the outcome of the approach in ED 01/20 aligns to that in extant ASRS 4400 and to the extent possible we should harmonise with the current International Standard on Related Services ISRS 4400.

There are no other restriction on use options that are not covered by questions 9 and 10 above.

Professional judgement:

13. Do stakeholders support the way in which the exercise of professional judgement is dealt with in ED 01/20? If not, why not?

No, we do not believe that the definition of professional judgement or the discrete requirement to apply professional judgement appropriately reflects the role professional judgement plays in an AUP engagement.

The execution of procedures in an AUP engagement should not involve professional judgement. We believe that including a definition, as well as a requirement to apply professional judgement in “conducting an agreed upon procedures engagement”, has the unintended consequence of conveying the exact opposite (i.e. that professional judgement is required in performing the procedures). We therefore believe that both the definition of professional judgement and the requirement in paragraph 18 should be removed from ED 01/20.

We however agree that professional judgement is applied in various aspects of an AUP engagement. In particular, professional judgement can be critical to engagement acceptance decisions (i.e., to make the judgements required by paragraph 21 and 22(c) of ED 01/20). We also agree with the other examples in paragraph A22 of when professional judgement may play a role. Instead, our

disagreement is with the approach taken to require the application of professional judgement holistically for the entire engagement. The meaning of the qualifier of “taking into account the circumstances of the engagement” is not clear and likely subject to misinterpretation. We believe a better approach, which would be less prone to the unintended consequences we have described, is to specifically emphasise the role of professional judgement in the application material where its application is of most relevance and importance.

We also note the following, as requested:

14. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?

As far as we can see, applicable laws and regulations have been appropriately addressed in the proposal standard. We are not aware of any references to relevant laws or regulations that have been omitted.

15. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We are not aware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

16. Whether there are any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?

We are not aware of any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.

17. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:
  - a. Where those costs are likely to occur;
  - b. The estimated extent of costs, in percentage terms (relative to related services fee); and
  - c. Whether expected costs outweigh the benefits to the users of related services?

We do not believe that there are any additional significant costs to/ benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed standard.

18. Are there any other significant public interest matters that stakeholders wish to raise?

We have no other significant public interest matters that we would like to raise in relation to the proposed standard.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in Australia. We would be pleased to discuss our comments with members of the Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact Chris George ([christopher.george@au.ey.com](mailto:christopher.george@au.ey.com)) or on 0419 206 323.

Yours sincerely



Chris George  
Partner  
Oceania Assurance Professional Practice Director



11 May 2020

The Chair  
Professor Roger Simnett  
Australian Auditing and Assurance Board  
PO Box 204 Collins Street West  
Melbourne VIC 8007

Dear Roger

**Re: Exposure Draft ED01/20 *Proposed Standard ASRS 4400 Agreed-Upon Procedure Engagements***

On behalf of the Institute of Public Accountants, I submit our review of Exposure Draft ED01/20 *Proposed Standard ASRS 4400 Agreed-Upon Procedure Engagements*.

The IPA has serious concerns in relation to the proposals for agreed-upon procedure engagements.

The IPA is concerned that reports issued by accounting firms are often used in a manner that implies the objectivity, independence and other characteristics of assurance engagements despite the actual nature of the engagement.

The IPA believes AUP engagements are often used as “assurance light engagements” that enable engaging parties to use the resulting reports in an advocacy manner to support the engaging party’s position or proposed action. The AUP engagements are able to be used in an advocacy manner by engaging parties as such reports are “third party” reports and benefit from the “halo” effect of the engagements being carried by audit firms. The implication being that the audit firms are independent in undertaking AUP engagements. It is naïve to consider the appointment of assurance firms to undertake AUP engagements does not arise from “brand association” as both the provider of assurance services and the associate implied independence.

The potential for “misuse” of AUP engagements is compounded by the relatively meagre engagement acceptance guidance, particularly when compared to ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The lack of extensive engagement acceptance criteria increases the potential use of AUP engagements and their associated reports. This lack of guidance is aggravated by the proposed withdrawal of Appendices 1 and 2 of the existing standard and the application guidance at A2 of the proposed standard which are in fact often carried out as assurance engagements.

The IPA believes the proposed changes would substantially exacerbate the risk of misuse of AUP engagements as a result of the weaker independence requirements of the proposed standard and the lifting of the restrictions on distribution.

We are considered with the implications of the proposed changes to AUP engagements have on ASRS 4450 *Comfort Letters* as such engagements are characterised as AUP engagements.

The IPA believes the proposed revised standard is not in the best interest of the public or the profession and risks further damage the credibility of assurance practitioners.

The IPA considers that the AUASB should pursue new proposals to enhance the existing ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Finding*. We find little merit, in the AUASB pursuing alignment with ISRS 4400.

Our comments and responses to the questions in the Exposure Draft are set out in the appendix.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca ([stephenlagreca@aol.com](mailto:stephenlagreca@aol.com)) or Mr Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)) GAAP Consulting.

Yours sincerely



Vicki Stylianou  
Group Executive, Advocacy & Technical  
Institute of Public Accountants

### **About the IPA**

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

## **Appendix**

### ***Independence – Requirements (Refer paragraph 9(a) of this Explanatory Memorandum for more information)***

#### **Question 1**

*Do stakeholders support ED 1/20 not requiring independence for an AUP engagement? If not, why not?*

#### **IPA response**

While the IPA believes there is no theoretical requirement for the independence in AUP engagements (subject to appropriate disclosure and restrictions on use), the IPA considers as the objective of many AUP engagements is to have a third party to undertake procedures and make findings there is an implicit value attributed to the perceived independence of that third party. The IPA is concerned without restrictions on distribution it is inappropriate to omit an independence requirement.

#### **Question 2**

*Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement to “other assurance engagements”, unless the engaging party has explicitly agreed to modified independence requirements?*

#### **IPA response**

The IPA supports the retention of the current ASRS 4400 independence requirement. However, the IPA believes the current independence reporting requirements should be enhanced to explain when independence is waived by the engaging party(s) and why the nature of the relationship impairing independence, including details of any conflicts of interest.

#### **Question 3**

*Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered in questions 1 and 2 above? Please provide details.*

#### **IPA response**

As noted in our response to Question 2, the IPA believes that enhanced reporting of threats to independence including disclosure of conflicts of interest should be disclosed, where an engaging party waives independence requirements.

#### **Question 4**

*If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?*

#### **IPA response**

The IPA believes there are compelling reasons not to adopt the ISRS 4400 without making significant amendments in relation to independence as noted in our covering letter and responses to Questions 1-3.

***Independence – Reporting Requirements (Refer paragraph 9(b) of this Explanatory Memorandum for more information)***

#### **Question 5**

*Do stakeholders support ED 01/20 with the AUP report including statements addressing when the practitioner is or is not required to be independent? If not, why not?*

#### **IPA response**

As noted in our response to Questions 2-3 the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.

#### **Question 6**

*If stakeholders support maintaining the approach adopted in the extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRD 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of engagement, a description of the level of independence applied?*

#### **IPA response**

As noted in our response to Question 5, the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.

#### **Question 7**

*Are there any other reporting options that are not covered by questions 5 and 6 above? Please provide details.*

## **IPA response**

As noted in our response to Question 5, the IPA believes that where a practitioner is not independent, the reporting requirements should include a statement as to what circumstances impair independence, including the nature of any conflicts of interest.

## **Question 8**

*If stakeholders do not support ED 01/20 with the AUP report required to include statement addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify 01/20 (based on revised ISRS 4400)?*

## **IPA response**

The IPA believes there are compelling reasons not to adopt the ISRS 4400 without making significant amendments in relation to independence reporting as noted in our covering letter and responses to Questions 1-3 and Question 5.

***Restriction on use (Refer paragraph 9(c) of this Explanatory Memorandum for more information)***

## **Question 9**

*Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?*

## **IPA response**

The IPA believes the changes to independence requirements together with dropping the guidance in the extant Appendices 1 and 2, the inconsistent guidance in paragraph A2 of the IFRS 4400 and the inadequate engagement acceptance criteria exacerbate our concerns with adoption of IFRS 4400.

As such, the IPA does not support the changes on restriction of distribution proposed by ISRS 4400.

## **Question 10**

*Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of the AUP report is restricted to those parties that have either agreed to the procedures to be performed or who have specifically been included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.*

## **IPA response**

The IPA would support the retention on the extant ASRS 4400 in relation to restriction of use.

## **Question 11**

*Are there any other restrictions on use options that stakeholder would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.*

## **IPA response**

The IPA has no comments on any other restriction on use.

## **Question 12**

*If stakeholders do support ED 01/20 not requiring the restriction of the AUP reports to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?*

## **IPA response**

As noted in our covering letter, the IPA has serious concerns with the potential misuse of AUP reports.

We believe the changes to independence requirements, together with dropping the guidance in the extant Appendices 1 and 2, the inconsistent guidance in paragraph A2 of the IFRS 4400 and the inadequate engagement acceptance criteria will exacerbate these concerns.

These concerns are compounded by inadequate independence reporting requirements. As such the IPA believes there are compelling reasons to modify ISRS 4400.

***Professional Judgement (Refer paragraph 9(d) of this Explanatory Memorandum for more information)***

## **Question 13**

*Do stakeholders support the way in which the exercise of professional judgment is dealt with in ED 01/20? If not, why not?*

## **IPA Response**

The IPA has no comment on the way exercise of professional judgement is dealt with in ED 01/20.

## ***Other Questions***

### **Question 14**

*Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?*

#### **IPA response**

The IPA is not aware of any reference to law or regulation that has been omitted from the proposed revised standard.

### **Question 15**

*Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

#### **IPA response**

The IPA is unaware of any law or regulation that would impede the application of the proposed standard.

### **Question 16**

*Whether there any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?*

#### **IPA response**

The IPA has expressed concerns on the use of AUP reports in our covering letter.

It is the IPA's view the adoption of revised ISRS 4400 without significant amendment will only exacerbate these concerns and therefore the adoption of proposed ISRS 4400 without significant amendment is not in the best interest of users or the Australian economy.

### **Question 17**

*What, if any are the additional significant costs to /benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:*

- (a) Where those costs are likely to occur;*
- (b) The estimated extent of costs, in percentage terms (relative to audit fee);  
and*
- (c) Whether expected costs outweigh the benefits to the users of audit services?*

### **IPA response**

The IPA is not in the position to benefit on the costs/benefits of the adoption of the revised ISRS 4400.

### **Question 18**

*Are there any other significant public interest matters that stakeholders wish to raise?*

### **IPA response**

The IPA has expressed concerns on the use of AUP reports in our covering letter.

It is the IPA's view the adoption of revised ISRS 4400 without significant amendment will only exacerbate these concerns and therefore the adoption of proposed ISRS 4400 without significant amendment is not in the best interest of users or the Australian economy.

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11 May 2020

Professor Roger Simnett AO  
The Chair  
Australian Auditing and Assurance Standards Board  
PO Box 204 Collins Street West  
Melbourne Vic 8007

Submission via [www.auasb.gov.au](http://www.auasb.gov.au)

Dear Roger

**Submission on Exposure Draft ED 01/20: ASRS 4400 Agreed-Upon Procedures Engagements**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above Exposure Draft ("the ED").

Both professional bodies have been long term supporters of the IAASB's project to update the international standard on agreed-upon procedures (AUP) engagements. We welcome the finalisation and recent release of the revised international standard ISRS 4400 *Agreed-Upon Procedures Engagements*.

Therefore, we provide our overall support for the AUASB's proposals to align the current Australian standard with its new international equivalent, as set out in the ED. We believe the proposals will ensure that Australian requirements continue to remain harmonised with best practice internationally, while adequately accommodating specific Australian issues and circumstances.

We appreciate that the international standard has moved away from the extant Australian standard in a number of areas. However, we are satisfied that the new international requirements still permit Australian practitioners and their clients to observe more restrictive practices should the circumstances of their individual engagements make that appropriate. Therefore, we agree that there are no compelling reasons to amend the international standard for these matters.

Nevertheless, we do recommend that the AUASB consider the development of additional guidance to supplement that being prepared by the IAASB to support ISRS 4400. We expect many Australian practitioners will continue to implement the existing more onerous, but well accepted, requirements from extant ASRS 4400 on matters such as independence and restrictions on the use of reports. Guidance supporting these choices, drawn from what is currently included in ASRS 4400, will ensure that Australian practice in these areas remains appropriately consistent and does not suffer from any perceived decline in engagement quality.

We discuss these matters further in our responses to the specific questions raised by the AUASB, which are addressed in the **Attachment** to this letter.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com) or Claire Grayston (CPA Australia) at [claire.grayston@cpaaustralia.com.au](mailto:claire.grayston@cpaaustralia.com.au).

Yours sincerely



**Simon Grant FCA**

Group Executive – Advocacy, Professional  
Standing and International Development  
**Chartered Accountants Australia and  
New Zealand**



**Gary Pflugrath CPA**

Executive General Manager, Policy and  
Advocacy  
**CPA Australia**

## Attachment

### Independence – Requirement

#### **1. Do stakeholders support ED 01/20 not requiring independence for an AUP engagement? If not, why not?**

We agree that an independence requirement does not necessarily provide value to users of an AUP engagement and should only be applied if it is required by them. In our view, requiring practitioners to be, and be seen to be, independent in all circumstances imposes unnecessary and costly preconditions that could preclude the provision of AUP engagements to clients where demonstrable independence benefits are less clear.

Notwithstanding this, we are aware that an independence requirement, equivalent to that applied to “other assurance engagements” by paragraph 17 of the extant ASRS 4400, is well supported within Australia as a means of adding value and credibility to these engagements. We also expect that many users and engaging parties will continue to specify independence requirements consistent with the extant standard. The ED adequately allows for this choice and the proposed disclosures surrounding independence are simple and clear. Therefore, we agree with the AUASB’s view that this change does not provide the AUASB with a compelling reason to amend the international requirements.

While we support the approach adopted in the ED, we also recommend that the AUASB include example independence wording suitable for use in the Australian environment in its material supporting the implementation of the revised standard. This would ensure that the standard continues to provide a clear framework for practitioners when users and engaging parties still wish independence requirements to be applied for an AUP engagement. It would also assist practitioners with the consistent application of independence when required, thereby assisting to ensure there is no perceived decline in quality arising from the implementation of the revised standard.

Such wording, drawn from the extant ASRS 4400 and updated for the current APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, should address both the engagement letter and AUP report and support decisions to adopt either an independence equivalent to “other assurance engagements” or modified independence for an AUP engagement.

#### **2. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby there is an independence requirement for the practitioner equivalent to the independence requirement applicable to ‘other assurance engagements’, unless the engaging party has explicitly agreed to modified independence requirements?**

No – we consider that independence requirements should not be made mandatory and so support the approach adopted by the ED and ISRS 4400. However, as we noted in our response to Question 1, we recognise that many users and engaging parties may wish to continue to adopt the extant ASRS 4400 approach to independence voluntarily. Therefore, we encourage the AUASB to provide additional guidance material that would support this choice and to ensure consistency of its application.

- 3. Are there any other independence pre-condition options that stakeholders would suggest to the AUASB that are not covered by questions 1 and 2 above? Please provide details.**

Not applicable as we do not support an independence precondition.

- 4. If stakeholders do not support ED 01/20 not requiring independence for an AUP engagement, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?**

Not applicable as we do not support an independence precondition.

### **Independence – Reporting Requirements**

- 5. Do stakeholders support ED 01/20 with the AUP report including statements addressing circumstances when the practitioner is or is not required to be independent? If not, why not?**

We support the inclusion of an appropriate statement about independence in the AUP report and believe that the ED's proposals set out at paragraph 30(l) are adequate for this purpose.

This is because we believe that a practitioner should not be required to make an independence determination when they are not required to be, or have not agreed to be, independent. Such a determination involves the practitioner in unnecessary work which serves no purpose. A statement that the engagement is not subject to independence requirements should be sufficient to guide users of the report in this matter.

However, if the practitioner is required to be or has agreed to be independent, such an assessment is necessary. Since these requirements will have been imposed by the engaging party or other users for a reason, it is important for the report to disclose the nature of the requirements against which this independence has been assessed and that these requirements have been complied with. Only then can the report adequately communicate the additional perceived credibility that the engaging party or other users are seeking to obtain by including independence requirements.

To this end, we recommend that the AUASB include guidance on wording for the most common independence options users and engaging parties may choose in its material supporting the implementation of the revised standard, as discussed in our responses to Questions 1 and 2.

- 6. If stakeholders support maintaining the approach adopted in extant ASRS 4400 in relation to independence (as outlined in question 2 above), do stakeholders support maintaining the approach in extant ASRS 4400 whereby the report is required to contain a statement that either ethical requirements equivalent to those applicable to Other Assurance Engagements have been complied with, including independence, or, if modified independence requirements have been agreed in the terms of the engagement, a description of the level of independence applied?**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.

**7. Are there any other independence reporting options that are not covered by questions 5 and 6 above? Please provide details.**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.

**8. If stakeholders do not support ED 01/20 with the AUP report required to include statements addressing circumstances when the practitioner is or is not required to be independent, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 5.

### **Restriction on use**

**9. Do stakeholders support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, but rather the report containing a statement identifying the purpose of the report and that the report may not be suitable for another purpose? If not, why not?**

In our separate submissions to the IAASB's ED on ISRS 4400 revised we both supported the approach that the international standard should permit, but not require, practitioners to impose report restrictions as a pragmatic approach to the need for an internationally workable standard. We also identified that without a report restriction, the report should provide a clear statement of purpose in order to ensure that the report was only relied upon by those for whom it was prepared.

Since the proposals in the ED allow for the practitioner to determine what restrictions are appropriate to the particular circumstances of the engagement and require the report to identify a clear statement of the purpose of the engagement, we support the proposals.

However, we also acknowledge that the established practice in Australia under paragraph 42 of extant ASRS 4400 is for report restrictions to be commonly applied for professional indemnity reasons, a situation that we do not see as likely to change. Since this option is permitted under the proposed standard, we agree that no compelling reasons exist to amend the international standard for adoption in Australia.

We acknowledge that the ED already provides some guidance on imposing report restrictions, and the IAASB may provide more in its forthcoming implementation guidance. Therefore, we encourage the AUASB to consider this guidance and, if necessary, supplement it with example wording from the extant ASRS 4400. Such guidance would promote consistency and assist to ensure that there is no perceived decline in quality from the implementation of the revised standard.

- 10. Would stakeholders prefer to maintain the approach in extant ASRS 4400 whereby the use of an AUP report is restricted to those parties that have either agreed to the procedures to be performed or have been specifically included as users in the engagement letter. Under ASRS 4400, a restriction on use paragraph is required to be included in an AUP report.**

No, we consider that report restrictions do not need to be mandatory and support the approach taken by the ED. However, as we noted in our response to Question 9, we recognise that many Australian practitioners may wish to continue to adopt the extant ASRS 4400 approach to report restrictions voluntarily. Therefore, we encourage the AUASB to provide, if the IAASB guidance does not, additional material to support practitioners choosing to restrict the use of their AUP report.

- 11. Are there any other restriction on use options that stakeholders would suggest to the AUASB that are not covered by questions 9 and 10 above? Please provide details.**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 9.

- 12. If stakeholders do not support ED 01/20 not requiring the restriction of the AUP report to parties that have agreed to the procedures to be performed, do stakeholders consider there to be compelling reasons (as outlined in paragraph 10 of this EM) to modify ED 01/20 (based on revised ISRS 4400)?**

Not applicable, as we support the approach taken by the ED as detailed in our response to Question 9.

### **Professional judgement**

- 13. Do stakeholders support the way in which the exercise of professional judgement is dealt with in ED 01/20? If not, why not?**

We do not consider that the ED is as clear as the extant ASRS 4400 concerning the prohibition on the application of professional judgement during the performance of procedures in an AUP engagement. Nevertheless, we support harmonisation with the IAASB standard and accept the AUASB's view that the requirements in the ED, while more subtle in this respect, can achieve this prohibition.

However, since application of professional judgement in the performance of procedures is a critical element that distinguishes AUP engagements from assurance engagements, we recommend that the AUASB encourage the IAASB to develop clear guidance material on this matter to assist in ensuring consistent implementation of the revised standard.

This guidance could include clarification of the documentation needed to identify where and why the practitioner exercised professional judgment as a practical means of drawing more attention to the need to ensure that it is not exercised in the performance of the procedures.

If the forthcoming IAASB guidance does not provide additional clarity, then the AUASB should consider supplementing it to clearly explain that the prohibition on the use of professional judgement in the performance of procedures remains the same between the extant and revised standards.

## **Other matters**

### **14. Have applicable laws and regulations been appropriately addressed in the proposed standard? Are there any references to relevant laws or regulations that have been omitted?**

We are not aware of any relevant laws and regulations that have not been properly addressed.

### **15. Whether there are any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

We are not aware of any relevant laws and regulations that have not been properly addressed.

### **16. Whether there are any principles and practices considered appropriate in maintaining or improving quality of related services engagements in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

One of the proposed changes is to shift the application from “assurance practitioner” in the extant standard to “practitioner”.

We appreciate that the ED has defined the term practitioner as “the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ASRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used”.

This definition could be read as suggesting that only accountants in public practice are able to complete AUP engagements, especially given its references to engagement partners and teams (terms it also defines). This is consistent with the IAASB and AUASB Glossary’s definition of “practitioner” as “professional accountant in public practice”

However, the AUASB has a broader standard setting remit than that of the IAASB. The AUASB is not limited to setting standards for the accountancy profession, and we note that AUASB Standards are legitimately used by non-accountants, such as Greenhouse and Energy Auditors.

We support the current application of ASRS 4400 which applies to all practitioners who are individuals or organisations involved in the provision of assurance services, whether in public practice, industry commerce or the public sector, not just those who are in public practice.

Therefore, we recommend that the AUASB reconsider either the definition of “practitioner” or its application guidance to make it clear that it can also cover those in industry, commerce and the public sector who wish to undertake these engagements, consistent with ASRS 4400’s current

definition of “assurance practitioner”. However, this should not be done by reusing the term “assurance practitioner” which we agree is unhelpful in a non-assurance standard.

The use of the broader term could mean that the understanding of the necessary skill sets and evidence-based issues may be less clear to those without an assurance background who take on AUP engagements.

Therefore, we recommend that the AUASB review the forthcoming IAASB guidance to ensure practitioners are reminded of their ethical obligations to address these issues appropriately. Direction to guidance about objective and scientific facts, such as that included in Appendix 1 of [APES 215 Forensic Accounting Services](#) may be of additional assistance.

**17. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of the proposed standard? If significant costs are expected, the AUASB would like to understand:**

- a. Where those costs are likely to occur;
- b. The estimated extent of costs, in percentage terms (relative to related services fee); and
- c. Whether expected costs outweigh the benefits to the users of related services?

We believe that the benefits of maintaining international harmonisation of these requirements can be achieved without impacting the perceived quality of these engagements in Australia. Allowing the implementation of independence requirements that are appropriate to the needs of users and engaging parties will remove any unnecessary costs arising from making an independence assessment and so increase the ability of many practitioners to offer a wider variety of services to their clients. In addition, providing the option of allowing practitioners to restrict the use of their reports still enables them to access the appropriate protections afforded by professional indemnity.

**18. Are there any other significant public interest matters that stakeholders wish to raise?**

None of which we are aware.



## AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 8.1  
**Meeting Date:** 9 June 2020  
**Subject:** ISQM 1  
**Date Prepared:** 1 June 2020  
**Prepared by:** Rene Herman

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☒ **Action Required**

☐ **For Information Purposes Only**

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### A. Background

- 1 The IAASB issued ED-ISQM 1 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and [submitted a response to the IAASB](#).
- 3 Over the past year, the AUASB has been tracking the progress of the updates to ED-ISQM 1 against the key matters raised in the AUASB's submission to the IAASB and throughout the updated progress of the standard. This tracking is reflected in the following AUASB meeting papers:
  - (a) 11 September 2019 (Agenda Item 4.4)
  - (b) 3 December 2019 (Agenda Item 16.3)
  - (c) 10 March 2020 (Agenda Item 3)
- 4 The ISQM 1 taskforce had addressed many of the matters raised by the AUASB however, at the March 2020 AUASB meeting, the AUASB still had a few matters of concern in the revision to ED-ISQM 1. A summary of these matters and where the IAASB task force has gotten to on these is summarised in section C of this paper.

### B. What the Audit Technical Group (ATG) is seeking from the AUASB at the June 2020 AUASB meeting

- 5 The purpose of this Agenda Item is to update the AUASB as to the taskforces proposed way forward on issues that were still considered open by the AUASB at the AUASB's March 2020 meeting and to receive any feedback from the AUASB. [See also, Section E to this paper that provides an update on ISQM 2]
- 6 **The IAASB is aiming to largely finalise ISQM 1 at the June 2020 IAASB meeting, with the standard being voted to issue at the September 2020 IAASB meeting. Accordingly, and in line with the AUASB International Strategy, AUASB members are encouraged to comment on any areas of the standard to inform the AUASB Chair of their views. AUASB members are reminded**

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*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.*



that this standard is drawing close to finalisation and that now is the last time to still influence areas of the standard.

- 7 Since this summary paper references paragraphs of this document a link to the extracts from the clean proposed ISQM 1 is provided [[here](#)]. Note – this is not a full read of the standard, but of selected paragraphs only.

**C. Summary of ISQM 1 taskforce actions addressing the matters raised by the AUASB at the March AUASB meeting:**

- 8 The new approach of boxed examples being the new convention. The AUASB continued to express concern that the modified approach to drafting of the presentation of examples in ‘boxes’ in the application material continues a precedent from ISA 315 that has yet to be exposed/socialised by the IAASB. Furthermore, the AUASB would like to gain an understanding of the intent of the examples, as some are considered by the AUASB to be basic and therefore, without fully understanding the intent, the AUASB questions the benefits of such examples.

*Update subsequent to March 2020:*

The boxed examples continue to be used by the IAASB and are currently supported by most members on the IAASB. The boxed examples do not create new requirements, they are illustrative only. The ATG does not consider this to be a fatal flaw in the standard.

Furthermore, the ATG note that as part of the LCE project, there is an ISA focused workstream, the objective of which is to enable more consistent and effective use of the ISAs through a focus on how the ISAs are written and presented. As part of this workstream the LCE working group would develop and consult on drafting principles and guidelines. It would then be determined how to take these principles forward (i.e. on which standards).

- 9 In relation to definitions, the AUASB commented that the definition of ‘findings’ contains the word ‘deficiency’ which was seen by the AUASB to be circular. Additionally, while the AUASB had no direct concern in relation to the definition of ‘quality risk’ and were positive that the definition included a threshold, the AUASB raised for consideration whether the definition becomes circular in the context of the requirements relating to the risk assessment process.

*Update subsequent to March 2020:*

(a) Definition of findings

*Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist.*

The definition of findings has not been amended. However, we have further understood the reference to deficiencies within the definition of findings. Other information that is accumulated from the performance of monitoring activities, external inspections and other relevant sources that does not indicate that a deficiency exists (such as positive outcomes) form part of the firm’s information and communication component, and may be used by the firm in multiple ways in the context of the SOQM. The ISQM 1 Taskforce is of the view that this other information is important, however it does not need to be comingled with the concept



of findings. Application material, paragraph A173<sup>1</sup>, has been added to emphasise the point that information accumulated from the performance of monitoring activities, external inspections and other relevant sources may be broader than just findings, i.e., it may include positive outcomes or opportunities for the firm to improve, or further enhance, the system of quality management.

(b) Definition of Quality Risk:

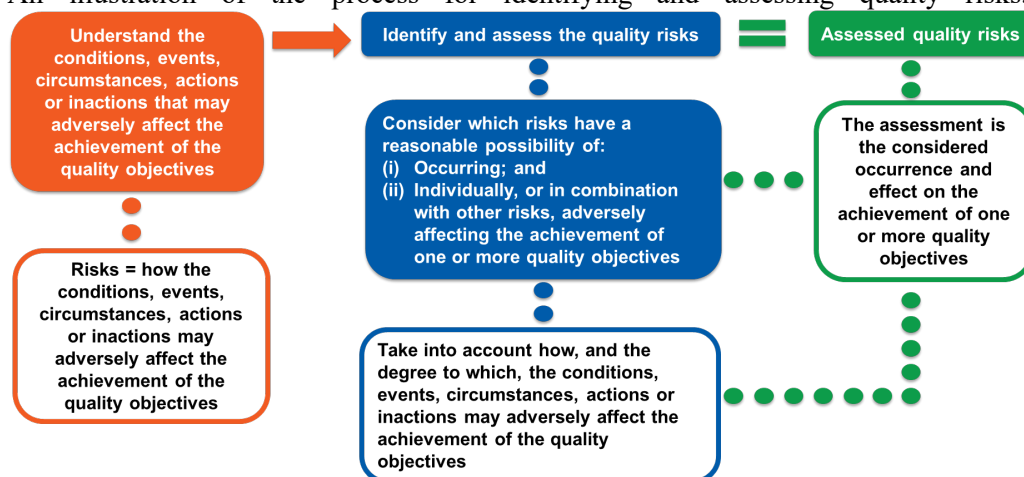
- The definition of quality risk has been revised with the threshold of ‘reasonable possibility’ embedded in the definition. The words likelihood and magnitude have purposefully been removed so that the focus is on ‘reasonable possibility’.

*Quality risk – A risk that has a reasonable possibility of:*

- (i) Occurring; and*
- (ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives. (Ref: Para. A11C)*

*A11C. The firm exercises professional judgment in determining the degree to which a risk, individually, or in combination with other risks, may adversely affect the achievement of a quality objective(s), and whether the risk is a quality risk. The degree may vary based on the conditions, events, circumstances, actions or inactions giving rise to the risk and how the risk affects the quality objective(s).*

- An illustration of the process for identifying and assessing quality risks:



<sup>1</sup> The results of monitoring activities, results of external inspections and other relevant information may reveal other observations about the firm's system of quality management, such as:

- Actions, behaviors or conditions that have given rise to positive outcomes in the context of quality or the effectiveness of the system of quality management; or
- Observations that similar monitoring activities did not note findings (e.g., in relation to engagements, observations that no findings were noted from monitoring activities on some engagements when there were findings from monitoring activities on other engagements).

Other observations may be useful to the firm as they may assist the firm in investigating the root cause(s) of identified deficiencies, indicate practices that the firm can support or apply more extensively (e.g., across all engagements) or highlight opportunities for the firm to enhance the system of quality management.



- The requirements applicable to the firm's risk assessment process have been revised and the circularity between the definitions and the requirements has been eliminated. For AUASB reference, the requirements and application material in relation to the firm's RAP are at paragraphs [22C-22G and A24F-A24V of the proposed ISQM 1](#).

- 10 The seemingly disproportional requirements in relation to monitoring and remediation and the associated disproportional documentation requirements. The AUASB considered that that the granularity of the requirements may be onerous on SMPs, especially sole practitioners.

*Update subsequent to March 2020:*

The IAASB Taskforce is of the view that monitoring and remediation is fundamental to Quality Management of a Firm. While there are many requirements, there are no requirements that would not apply to all firms regardless of size – however these requirements could be scaled/flexed. There are a few areas where scalability and flexibility are demonstrated in the monitoring and remediation section and this relates to:

- Flexibility demonstrated by way of examples of how the firm may apply a cyclical basis for the inspection of completed engagements for each engagement partner (A169A)
- Inclusion of new application material paragraph A171A<sup>2</sup> which explains that firms may use service providers to perform monitoring activities – this was added to respond to application of this section of the standard for smaller firms.

**D. Other changes to ISQM 1 since the March AUASB meeting**

- 11 The evaluation of the system of quality management has been updated to clarify the difference between conclusions about the SOQM, and how the remediation of deficiencies affects these conclusions (i.e. impact on conclusions where deficiencies are severe and/or pervasive). AUASB members are referred to paragraph [22C-22G and A24F-A24V of the proposed ISQM 1](#).

- 12 In relation to the resources component and in response to IAASB member feedback that component auditors need to be considered in the context of ISQM 1, the taskforce considered that the SOQM needed clarification addressing the following:

- (a) Ensuring that the engagement team has access to the appropriate resources to perform the engagement; and
- (b) Supporting engagement teams in dealing with the competence and capabilities of the individuals assigned to the engagement, including component auditors and other individuals assigned by the network, another network firm or service.

- 13 In response to paragraph 12 above, the taskforce has proposed the following revisions:

- (a) New introductory material added at paragraph [13B of proposed ISQM 1](#) to clarify which requirements of proposed ISQM 1 apply to component auditors and other individuals performing procedures on the firm's engagements.

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<sup>2</sup> In some circumstances, for example, in the case of a less complex firm, there may not be an individual within the firm who has the competence, capabilities, time or objectivity to perform the monitoring activity. In these circumstances, the firm may use network services or a service provider to perform the monitoring activities.



- (b) Included a new quality objective at paragraph [38\(ab\) of proposed ISQM 1](#) to be clear that the firm's SOQM needs to address obtaining human resources when the firm does not have the personnel in-house that are needed to perform engagements.
- (c) Quality objective in paragraph 38(b) of proposed ISQM 1 is with reference to engagement team's competence, capability to perform quality engagements (thus including service providers, networks, component auditors). The taskforce has proposed application material paragraphs [A120-A120E of proposed ISQM 1](#) to provide guidance in relation to this quality objective.

**E. Other matters for noting – ISQM 2, effective date and post release support**

- 14 For the June 2020 IAASB meeting there has been no turnaround document or issues paper prepared for ISQM 2. At the March 2020 AUASB meeting, the only matter that the AUASB still had 'open' was the inclusion of a mandatory cooling off period of two years being required under ISQM 2. The AUASB considered that the requirements regarding the EQR cooling off period should be dealt with by IESBA under the Code, noting this had been raised previously by the AUASB in their submission to the IAASB and reiterated by the AUASB Chair at subsequent meetings of the IAASB. While the ATG have not seen a turn around ISQM 2, we understand that the IESBA Code will not be incorporating the cooling off period of 2 years within the Code but will add an appropriate cross-reference to proposed ISQM 2 at the end of the new Section 325 in the IESBA Code to highlight the specification of a cooling-off period with respect to the matter of an individual being considered for appointment to the EQR role after having served as the engagement partner. While this may not be the preferred AUASB approach, this is where ISQM 2 is expected to land. The IAASB in their deliberations also had a preference that the period should be included within the IESBA Code, however failing this, the IAASB agreed that it is in the public interest to have a period specified within ISQM 2 and not leave this open.
- 15 The IAASB will be discussing the proposed wording and effective dates of the proposed quality management standards. The taskforce will be recommending the effective date of 15 December 2022. Early adoption will be permitted, but all 3 standards need to early adopt simultaneously.
- (a) The proposed effective date wording is as follows:

ISQM 1	ISQM 2	ISA 220 (Revised)
Systems of quality management in compliance with this ISQM are required to be designed and implemented by [Date], and the evaluation of the system of quality management required by paragraph 65A of this ISQM is required to be performed within one year following [Date <sup>3</sup> ].	This ISQM is effective for: a) Audits and reviews of financial statements for periods beginning on or after [Date]; and b) Other assurance or related services engagements beginning on or after [Date].	This ISA is effective for audits of financial statements for periods beginning on or after [Date].

<sup>3</sup> The dates in ISQM 1's effective date paragraph will be the same date. In order for the system to be ready to commence operation by the effective date, the firm will need to establish the quality objectives, identify and assess quality risks and design and implement the responses by the effective date. The operation of the responses is only required to commence from the effective date



- 16 The following proposed post release support plan is being presented to the IAASB at the June 2020 IAASB meeting:

	<i>Proposed Timing<sup>4</sup></i>	<i>Format</i>
<b>First Time Implementation Guide</b> Highlighting significant changes in the published standard from extant standards	Fourth Quarter 2020	Published document
<b>Fact Sheets</b> Short documents to provide focused implementation guidance to a specific topic. These may cover, for example: <sup>5</sup> <ul style="list-style-type: none"><li>• Overall summary of the QM standards</li><li>• The firm's risk assessment process</li><li>• Service providers</li><li>• Networks requirements or network services</li><li>• Dealing with impairment of the objectivity of an engagement quality reviewer</li></ul>	Fourth Quarter 2020	Published document
<b>Staff Publication – Questions and Answers</b>	First Quarter 2021	Published documents relating to matters not addressed in the First Time Implementation Guide or the Fact Sheets
<b>Webinar – Discussing Significant Changes in the Standards and Related Implementation Considerations</b>	First Quarter 2021	Webinar
<b>Other Multimedia Assets</b>	Fourth Quarter 2020	Voiceover animations (similar to what was done with the QM EDs).

Additionally, as part of the implementation support plan, and as noted by respondents, IAASB staff will encourage IFAC to update their Guide to Quality Control for Small- and Medium-Sized Practices and provide input as appropriate

#### **F. The way forward:**

The IAASB has indicated that the timing for approval of the quality management standards is expected September 2020, subject to PIOB approval later in the year.

<sup>4</sup> Dates are subject to change, but implementation support activities will be complete by June 2021.

<sup>5</sup> Other topics may be identified for the fact sheets or staff questions and answers.



## AUASB Board Meeting Summary Paper

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**AGENDA ITEM NO.** 8.2.0  
**Meeting Date:** 9-10 June 2020  
**Subject:** ISA 220  
**Date Prepared:** 3 June 2020  
**Prepared by:** Tim Austin

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☒ **Action Required**

☐ **For Information Purposes Only**

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### A. Background

- 1 The IAASB issued ED-ISA 220 in February 2019, with a comment period ending 1 July 2019.
- 2 The AUASB did extensive outreach on this Exposure Draft and [submitted a response to the IAASB](#).
- 3 Over the period since exposure, the AUASB has tracked the IAASB's revisions to proposed ISA 220 and whether they addressed the key matters raised by the AUASB in its submission. Additional issues have been raised as proposed ISA 220 has been revised. This tracking is reflected in the following AUASB meeting papers:
  - (a) 11 September 2019 (Agenda Item 4.6)
  - (b) 3 December 2019 (Agenda Item 16.5)
  - (c) 10 March 2020 (Teleconference) (Agenda Item 5)
- 4 The ISA 220 taskforce has addressed many of the matters raised by the AUASB however, at the March 2020 AUASB meeting, the AUASB still had a few matters of concern with the proposed ISA 220. A summary of these matters and how the IAASB task force has responded is summarised in section C of this paper.

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*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.*

**B. What the Audit Technical Group (ATG) is seeking from the AUASB at the June 2020 AUASB meeting**

- 5 The purpose of this Agenda Item is to update the AUASB on the matters being discussed at the upcoming IAASB June 2020 Meeting and the Taskforce's response to the issues still considered open by the AUASB at the AUASB's March 2020 meeting.
- 6 **The IAASB has not provided any separate ISA 220 papers as part of this meeting. Excluding the Quality Management Coordination papers, only one ISA 220 matter linked with ISQM 1 is proposed to be discussed and has been included as part of the ISQM 1 IAASB Papers.**
- 7 **As previously outlined, the IAASB considers ISA 220 largely finalised and the standard is expected to be approved and issued at the September 2020 IAASB meeting.**

**C. Summary of other ISA 220 matters:**

*Matter to be discussed at this meeting as part of ISQM 1*

- 8 At the March 2020 IAASB meeting, the ISA 220 Taskforce was asked to consider whether the resources section of proposed ISA 220 appropriately dealt with component auditors who are not directly engaged by the firm. The conclusion of the Taskforce was that proposed ISA 220 should recognise that although the firm may not directly assign component auditors to the engagement, the firm would have policies or procedures in place for those circumstances. The Taskforce proposed a number of changes to the resources of section of proposed ISA 220. The changes can be viewed [here](#).

*Matters from March AUASB 2020 Meeting:*

Engagement Partner Responsibilities and Assigning Requirements to other Members of the Engagement Team:

- 9 The AUASB viewed that the changes made by the IAASB clarified requirements which are the sole responsibility of the engagement partner and requirements which may be assigned to other members of the engagement team. However, the AUASB considered it important that a clear rationale for why a paragraph may or may not be assigned should be presented alongside the standard to facilitate development of future implementation support such as examples.
- 10 This was raised again at the March 2020 IAASB Meeting by the AUASB Chair with a suggestion of inclusion as part of the Basis of Conclusions for ISA 220. The Taskforce outlined that the starting point was the extant standard. An additional change made by the Taskforce was to redraft paragraph 9 to outline that even though a requirement may be the sole responsibility of the engagement partner, the engagement partner is permitted to gather information for compliance with the requirement from engagement team members.
- 11 The AUASB additionally raised some concerns about the interaction between proposed ISA 600 and proposed ISA 220. The AUASB Chair requested that AUASB Members provide examples of where proposed ISA 220 and proposed ISA 600 create issues.
- 12 The ISA 220 Taskforce also requested specific examples to be provided when this concern was raised with them. An issue relating to ISA 220 and ISA 600 which has been addressed

related to the engagement partner taking responsibility for the competence and capability of the engagement team, including component auditors. This has been dealt with by changes to proposed ISQM 1 and changes to ISA 220 (outlined paragraph 8). See **Agenda Item 8.1**.

#### Reliance on the Firm's System

- 13 The AUASB in its submission raised that the engagement partner's ability to rely on the firm's systems should be more clearly articulated. The changes made to ISA 220 have not address this fully, the ATG suggested that paragraph A7(A11 in last version of ISA 220) could be elevated to the introduction as this provided a good example of how ISA 220 worked with ISQM 1.
- 14 This matter was discussed with the ISA 220 Taskforce after the March 2020 AUASB Meeting. The Taskforce requested the AUASB to provide a suggested redraft of paragraph 4 of ISA 220 to address the matter. The ATG concluded that it would be difficult to redraft paragraph 4 at this stage but agreed on an approach where the order of related application material was changed, in particular that paragraph A11 should be linked to paragraph 4(a) and not 4(c).

#### Proportionality of EP and EQR Responsibilities

- 15 The AUASB in its submission had raised that the level of work expected of an Engagement Quality Reviewer (EQR) in some areas appeared to be at the same level as the Engagement Partner.
- 16 This matter was raised again with the ISA 220 Taskforce after the March 2020 AUASB Meeting. The Taskforce's view is that "evaluate" is the appropriate term to use throughout ISQM 2 as that is the role of the EQR requirements and that the purpose of ISA 220 and ISQM 2 are very different so the requirements cannot be compared line by line.

#### **D. Other matters for noting**

- 17 Effective date has been considered as part of the **Agenda Item 8.1 Section E**.

#### **E. The way forward:**

- 18 The IAASB has indicated that the timing for approval of the quality management standards is expected September 2020.