

**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**

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*Important Note*

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

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

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

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### **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: 10 June 2020

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 10 June 2020 by the AUASB and replaces GS 009 *Auditing Self-Managed Superannuation Funds*, issued in September 2015. The content of this guidance statement reflects auditing standards, other standards and interpretations and legislative requirements in place at the date of issue.

#### 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

<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 \(NAT11466\)](#).

- (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;
  - (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;

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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: [www.asic.gov.au/smsf-auditor](http://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.



- (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
  - (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 is 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: [www.ato.gov.au/Super/Self-managed-super-funds](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 are generally not considered reporting entities and, consequently prepare special purpose financial reports. SMSFs 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 a 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.

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.

- (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>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, 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.
- (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 a 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. 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

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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 a 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.

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, for example through, 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 in 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 guide the development of the audit plan and that plans 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.

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

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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.



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 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 of the engagement, for the purpose of

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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.

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 a 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, considers 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 auditor's report have been identified, and if material, are properly disclosed and accounted for.

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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*.

- (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 whether 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>

*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

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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.

applicable to the conduct of the compliance engagement of SMSFs. For example, ASAE 3100 requires the auditor to:

- Comply with applicable Standards on Assurance Engagements.
  - Comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
  - Implement quality control procedures.
  - Meet acceptance and continuance 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 a 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 141-147.

### **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.

#### *Ethical Requirements*

- 32. 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>
- 33. 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.

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

- 34. 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.
- 35. The auditor ensures that they possess, or, if applicable, the engagement team conducting the audit collectively possesses, 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

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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 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.

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.

36. 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*

37. 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>
38. 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.
39. 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.
40. 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.
41. 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:

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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.

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

- (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.
- 42. 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 will 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.
- 43. 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 42 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.
- 44. 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.
- 45. 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>
- 46. 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>
47. 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 at an acceptable level and must be addressed.<sup>59</sup>
48. A firm (or network 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.
49. 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.
50. 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 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 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.

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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.

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



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.

51. 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>
52. 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.
53. 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.
54. 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.
  - (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 to 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

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<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.

- 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.

55. 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>
56. The Independence Guide, Chapter 8 specifically addresses the independence requirements in the Code in a SMSF's context and provides a number of practical scenarios about how the conceptual framework in the Code can be applied to those scenarios.

#### *Professional Judgement and Scepticism*

57. 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*

58. 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.

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

*Agree the Terms of Engagement*

59. 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.
60. 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 approves 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.
61. 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
  - 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.
62. 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 misunderstands 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.

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

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

## **Planning**

64. 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.
65. 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.
66. 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.
67. 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.

68. 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*

69. 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.
70. 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.
71. 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.
72. 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.
73. 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.
74. 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*

75. 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.

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

- 76. 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.
- 77. 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.
- 78. 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**

- 79. 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.
- 80. 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.
- 81. 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.
- 82. 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 a SMSF Audit*

- 83. 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.
- 84. Traditionally, the primary source document for SMSF account preparation was the bank statement and individual transactions were manually loaded into accounting software

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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>.

(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.

85. 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>
86. 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**

87. 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 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.
88. 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).
89. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within Part A (paragraphs 171 to 174) and Part B (paragraphs 315 to 316), respectively, of this Guidance Statement.

## **Audit Evidence**

90. 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

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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. See ASIC CO 13/763.

<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.

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.

91. ASA 500 and ASAE 3100 require the auditor in the conduct of the financial audit and compliance engagement to obtain sufficient appropriate audit evidence on which to base the auditor's opinion. 'Sufficiency' is the measure of the quantity of evidence, which is affected by the risk of misstatement - the higher the risk the more evidence is likely to be required. 'Appropriateness' is the measure of the quality of evidence, that is, its relevance and its reliability - the higher the quality the less evidence may be required. The auditor considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the 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.
92. 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 of the population);
  - 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.
93. 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.

94. 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.
95. 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.
96. 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.
97. 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.
98. 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*

99. 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.
100. '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.

101. Where data feeds are prepared via an aggregator ('scraped 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.
102. 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.
103. 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.
104. ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence, which include:
  - inspection of records or documents;
  - inspection of tangible assets;
  - observation;
  - enquiry;
  - confirmation;
  - recalculation;
  - re-performance; or
  - analytical review procedures.
105. 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*

106. 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.
107. 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*

108. 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*

109. 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*

110. 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.
111. 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.
112. 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.
113. 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>

*Confirmation*

114. 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*

115. 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.

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

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

*Re-performance*

116. 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*

117. 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.
118. 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.
119. 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 procedures to assess whether the member balances are reasonable given the overall circumstances of the SMSF.

**Audit Documentation**

120. 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.
121. 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.
122. 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.
123. 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*

124. 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.
125. 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 auditor's report is signed.
126. 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.
127. 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.
128. 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*

129. 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

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

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

the auditor to prepare a summary of findings relating to both compliance matters and matters relating to the financial report for each SMSF audit.

130. 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.
131. 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**

132. 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 auditor's report being issued.
133. 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.
134. With respect to the financial audit of a SMSF, under ASA 580, the auditor obtains written representations from the trustee, including that they:
- acknowledge responsibility for the selection of the applicable financial reporting framework and for the fair presentation of the financial report in accordance with the adopted applicable financial reporting framework;
  - have approved the financial report;
  - confirm specified matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist;
  - acknowledge their responsibility for the design and implementation of internal control to prevent and detect error; and
  - believe the effect of uncorrected misstatements aggregated by the auditor is immaterial, both individually and in aggregate, to the financial report.
135. 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.
136. 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.
137. 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.
138. 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**

139. 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.

140. 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*

141. 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.
142. 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.
143. 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 evidence 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 SMSF auditor may need to conduct additional procedures for investment, income, expenses and tax information included in the custodian's report.

144. 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.
145. 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.
146. 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 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.
147. 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 auditor's report within three months of the end of the financial year. The auditor's

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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*.



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**

148. 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.
149. 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.
150. 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.
151. 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 auditor's 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.
152. Where the SMSF auditor is unable to obtain sufficient appropriate audit evidence regarding the custodial services provided by the service organisation relevant to the audit of the SMSF's financial report, a limitation on the scope of the audit may exist. 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**

153. 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

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

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).

154. 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*

155. 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.
156. The trustee is required to obtain annually, an actuarial certificate for funds with members in both pension and accumulation phases, where the assets are unsegregated, 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-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.
157. 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 superannuation 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.

158. 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.
159. 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:

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

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

- (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.
160. 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.

## PART A – FINANCIAL AUDIT

161. 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.
162. 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

163. 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.
164. 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.
165. 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.
166. 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 181 to 253, and illustrative financial audit procedures are also provided in Appendix 4 of this Guidance Statement.

## **Assertions and Audit Evidence**

167. 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.
168. 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.
169. 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**

170. 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.
171. 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.

172. 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.
173. 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**

174. 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.
175. 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.
176. 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.
177. 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.
178. 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.

179. If audit procedures do not result in sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's report is modified. This would be a Part A qualification. Further guidance on modifications to the auditor's report is provided in paragraphs 298 to 302.

## **Cash and Cash Equivalents**

180. 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.
181. 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.
182. 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.
183. 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.
184. 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**

185. 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.
186. Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.
187. 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.
188. 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.
189. 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*

190. 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*

191. 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*

192. 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.
193. 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*.
194. 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.
195. 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.

196. 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.
197. 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.
198. 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.
199. Investments in unlisted companies or trusts may need further consideration by the auditor in order to obtain evidence 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 regarding the valuation methodology provided at the initial purchase and any subsequent additional investment by the SMSF;
  - (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.
200. 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.

201. 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.
202. 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.
203. 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*

204. 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.
205. 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.
206. 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).
207. 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 analytical review procedures 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.

208. 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.
209. 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.
210. 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.
211. It may not be possible 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**

212. 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.
213. 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.
214. Prepayments are tested against cash payments and particular attention is paid to transactions with related parties to ensure they relate to a genuine expense.
215. 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**

216. 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.
217. 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.
218. 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.
219. 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.
220. 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**

221. The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.
222. 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.
223. 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.
224. 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**

225. 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 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.
226. Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member concessional and non-concessional contributions (NCCs), mandated

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<sup>95</sup> Preservation age is the age at which superannuation 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.

contributions (compulsory employer contributions) such as 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>98</sup>

227. 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**

228. 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.
229. 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.
230. 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.
231. 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.
232. 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.
233. 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.
234. 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

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



excess contributions, where a contribution is received 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>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.

235. 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 contributions rules.
236. 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.
237. 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**

238. 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.
239. The audit assertions for revenue received by a SMSF are:

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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.

- 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.
- 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.

240. 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**

241. 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 SGC, 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

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

- 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.

242. The assertions 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.

243. 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 241;
- 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.

244. 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**

245. The typical expenses of a SMSF may include:

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

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

- 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.

246. 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.

247. 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.

248. 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**

249. 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.

250. The audit assertions with respect to a SMSF's tax expenses and benefits include:

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

- Occurrence – deductions were incurred and imputation credits, carried forward losses and any other offsets are attributable to the SMSF.
  - Completeness – assessable income, including capital gains, received by the SMSF has been declared.
  - Accuracy and valuation – assessable income, including capital gains, allowable deductions, 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. As most SMSFs 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 and other 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 contributions must be returned. The auditor reviews information pertaining to contributions to ascertain whether the excess contributions are 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<sup>107</sup> 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 superannuation 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>108</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 concessionally. The auditor checks that any non-arm's length income has been classified correctly. Uncorrected NALI may result in a material misstatement of the tax expense of the

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

<sup>107</sup> See paragraph 408 to 410 of this guidance statement.

<sup>108</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.

SMSF and the auditor may need to modify their opinion on the financial statements – Part A qualification.

#### *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>109</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>109</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>110</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>111</sup>

#### *Actuarial Reports for Unsegregated Assets*

271. Where a fund does not qualify as holding 'disregarded small fund assets' has unsegregated 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>112</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>113</sup>
273. SMSFs may pay benefits by way of a lump sum (in cash or in specie<sup>114</sup>), pension or insurance benefit.<sup>115</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>110</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>111</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>112</sup> This can be permanent or temporary incapacity which prevents the member from engaging in gainful employment.

<sup>113</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 to 280 for further guidance on benefit splitting.

<sup>114</sup> Assuming in-specie payments are permitted by the fund's governing rules.

<sup>115</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 paid 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>116</sup>
  - (e) notice by a trustee of information regarding an interest subject to a payment split;<sup>117</sup>
  - (f) payment split notice by a trustee to both member and non-member;<sup>118</sup> and

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<sup>116</sup> See notice under regulation 72 of the *Family Law (Superannuation) Regulations 2001*.

<sup>117</sup> See notice under regulation 2.36C of the SISR.

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

- (g) one of the following notices by the non-member spouse to the trustee to:
  - (i) create a new interest;<sup>119</sup>
  - (ii) rollover or transfer benefits;<sup>120</sup> or
  - (iii) pay a lump sum where a non-member has met a condition for release.<sup>121</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, there exists the possibility that court orders inadvertently conflict with the SISA or SISR. In these cases the auditor may seek legal advice where benefit 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>122</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>123</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

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<sup>119</sup> See notice under regulation 7A.03C or 7A.05 of the SISR.

<sup>120</sup> See notice under regulation 7A.03D or 7A.06 of the SISR.

<sup>121</sup> See notice under regulations 7A.03E or 7A.07 of the SISR.

<sup>122</sup> ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

<sup>123</sup> Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph 312 of this Guidance Statement.

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>124</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>125</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>126</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 28, under ASA 570, the auditor may conclude that either:
- (a) an unmodified auditor's opinion may be issued when:
    - (i) the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the SMSF, for the financial report to be prepared on a going concern basis; or
    - (ii) there is adequate disclosure of a "Material Uncertainty Related to Going Concern". In the auditor's report the auditor must include a separate section under that heading, draw attention to the note in the financial report, and state that these events or conditions may cast significant doubt on the SMSF continuing as a going concern but that the auditor's opinion is not modified in respect of the matter; 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 the financial report does not adequately disclose this matter; or
    - (ii) 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

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<sup>124</sup> See regulation 9.38(1) of the SISR.

<sup>125</sup> See regulation 9.35 of the SISR.

<sup>126</sup> See regulation 9.17 of the SISR.

any subsequent events have occurred which might affect the financial report, such as sales of investments or significant adjustments to investment values.

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 date 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 auditor's 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>127</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>128</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>129</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 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

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<sup>127</sup> The ATO approved form auditor's report is available at [www.ato.gov.au/Forms/SMSF-independent-auditor-s-report/](http://www.ato.gov.au/Forms/SMSF-independent-auditor-s-report/).

<sup>128</sup> See regulation 8.03 of the SISR.

<sup>129</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.

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>130</sup>

#### *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. The addition of an emphasis of matter paragraph does not affect the auditor's opinion but draws the users' attention to the matter raised. 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. ASA 706 contains the requirements and guidance regarding an emphasis of matter paragraph. The ATO approved form auditor's report<sup>131</sup> includes the required wording.
304. An auditor's report may also include an emphasis of matter paragraph to highlight that the financial report has been revised due to the discovery of a subsequent event and replaces a previously issued financial report for which an auditor's report was issued.

#### *Other Matter*

305. An auditor's report may include a 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
  - (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.

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<sup>130</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 auditor's report.

<sup>131</sup> The ATO approved form auditor's report can be found on the ATO's website: [www.ato.gov.au/Forms/SMSF-independent-auditor-s-report](http://www.ato.gov.au/Forms/SMSF-independent-auditor-s-report).

*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 to 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>132</sup>

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<sup>132</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>133</sup> Part B SISA/SISR	ACR <sup>134</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>133</sup> Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July 2019 (NAT 11466).

<sup>134</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>133</sup> Part B SISA/SISR	ACR <sup>134</sup> 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>135</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>136</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.

## 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:

<sup>135</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>136</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.

- (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>137</sup>

#### *Definition of SMSF*

317. To determine if the SMSF meets the definition of a SMSF,<sup>138</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
  - obtaining trustee representations.

#### *Disqualified Persons*

318. An individual SMSF trustee is disqualified under the SISA<sup>139</sup> if they are:

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<sup>137</sup> See subsection 35C(2) of the SISA.

<sup>138</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 *SMSF's Subparagraph 17(A)(3)(b)(i) of the SISA – tribunal appointed administrator of the plenary estate of a person with a mental disability*.

<sup>139</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'*.

- (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>140</sup>
324. The SISA requires that the records be kept in the English language or a form that is readily convertible to English<sup>141</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.
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.

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<sup>140</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>141</sup> See section 35A of the SISA.

*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>142</sup> The auditor may obtain representations from the trustees that no such arrangement has been entered into.

*Investment Strategy*

327. The SISR<sup>143</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>144</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.
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.

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<sup>142</sup> See section 52(2)(e) of the SISA.

<sup>143</sup> See regulation 4.09 of the SISR.

<sup>144</sup> See *Ryan Wealth Holdings Pty Ltd v Baumgartner* NSWSC [1502].

## Sole Purpose

332. The SISA<sup>145</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 Auditor's Report.<sup>146</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>147</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>148</sup>
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>149</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.

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<sup>145</sup> See section 62 of the SISA.

<sup>146</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>147</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>148</sup> See *Aussiegolfa Pty Ltd (Trustee) v Federal Commissioner of Taxation* (VID 54 of 2018 VID 83 of 2018).

<sup>149</sup> See regulation 13.18AA of the SISR.

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>150</sup>
  - loans or financial assistance to members or relatives;<sup>151</sup>
  - acquisitions from related parties;<sup>152</sup>
  - charges over assets;<sup>153</sup>
  - assignment of, or charges over, member's benefits;<sup>154</sup>
  - SMSF assets not held separately from the members' personal assets;<sup>155</sup>
  - acquisition of IHA in excess of 5 per cent of the total market value of the SMSF assets;<sup>156</sup> and
  - collectables and personal use assets.<sup>157</sup>

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

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<sup>150</sup> See section 109 of the SISA.

<sup>151</sup> See section 65 of the SISA.

<sup>152</sup> See section 66 of the SISA.

<sup>153</sup> See regulation 13.14 of the SISR.

<sup>154</sup> See regulations 13.12 and 13.13 of the SISR.

<sup>155</sup> See subsection 52B(2)(d) of the SISA and regulation 4.09A of the SISR.

<sup>156</sup> See Part 8 of the SISA.

<sup>157</sup> See regulation 13.18AA of the SISR.

*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>158</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>159</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>160</sup> that are acquired by the fund on or after 1 July 2011 are subject to restrictions<sup>161</sup> contained in the regulation 13.18AA of the SISR including that:

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<sup>158</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>159</sup> See paragraph 348 of this guidance statement.

<sup>160</sup> Collectables and personal use asset list contained in regulation 13.18AA(1) of the SISR.

<sup>161</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.



- They must not be leased to any related party<sup>162</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>163</sup> determined by a qualified independent valuer;<sup>164</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>165</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>166</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>167</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>168</sup> A related trust is a trust that a member or employer-sponsor controls.<sup>169</sup> There are a number of exceptions to the definition of IHA and transitional provisions included in Part 8 of the SISA.<sup>170</sup> The auditor needs to be familiar with these exceptions when considering IHA requirements.

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

<sup>163</sup> Market value is defined in subsection 10(1) of the SISA.

<sup>164</sup> See the ATO's *Valuation guidelines for self-managed superannuation funds*, available on the ATO's website: [www.ato.gov.au/Super/Self-managed-super-funds](http://www.ato.gov.au/Super/Self-managed-super-funds)

<sup>165</sup> See regulation 13.18AA(6) of the SISR.

<sup>166</sup> See guidance on in-house assets provided in paragraphs 348 to 351 of this Guidance Statement.

<sup>167</sup> See regulation 13.18AA(6) of the SISR.

<sup>168</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>169</sup> Defined in subsection 10(1) of the SISA.

<sup>170</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.

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>171</sup> and at year end.<sup>172</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>173</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>174</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>175</sup> is land and buildings used wholly and exclusively for business purposes.<sup>176</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 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

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<sup>171</sup> See section 83 of the SISA.

<sup>172</sup> See section 82 of the SISA.

<sup>173</sup> See section 85 of the SISA.

<sup>174</sup> See section 66 of the SISA.

<sup>175</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>176</sup> See ATO Ruling SMSFR 2009/1.

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-geared unit trusts which meet the other requirements of the SISR.<sup>177</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>178</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>179</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>180</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

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<sup>177</sup> See regulation 13.22A - 13.22D of the SISR

<sup>178</sup> See section 109 of the SISA.

<sup>179</sup> See subsection 109(1)(b) of the SISA.

<sup>180</sup> See subsection 52B(2)(d) of the SISA, and Regulation 4.09A of the SISR.

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>181</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>182</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>183</sup> with the exceptions<sup>184</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>185</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.

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<sup>181</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>182</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>183</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>184</sup> See sections 67 and 67(A) of the SISA.

<sup>185</sup> See ATO Ruling SMSFR 2012/1 *Limited recourse borrowing arrangements – application of key concepts*.

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

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<sup>186</sup> See sections 67A and 67B of the SISA.

<sup>187</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>188</sup> Table 1 in ATO Ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.

- (c) the borrowing is permitted only over a single acquirable asset or a collection of identical assets that have the same market value;
- (d) the asset within the arrangement is not subject to a charge other than to the lender in respect of the borrowing by the superannuation fund trustee.<sup>189</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>190</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.
- 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;

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<sup>189</sup> See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.

<sup>190</sup> See subsection 67A(1) of the SISA.

- 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>191</sup>

#### *Charges Over Assets*

373. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility<sup>192</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>193</sup> See paragraphs 191 to 202 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;
  - (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>194</sup>

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<sup>191</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>192</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>193</sup> See regulation 8.02B of the SISR.

<sup>194</sup> More information is available on the ATO's website at [www.ato.gov.au/](http://www.ato.gov.au/) (search under 'paying benefits').

### Minimum Benefits

379. The trustees are required<sup>195</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>196</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>197</sup> severe financial hardship and compassionate grounds which are assessed by the ATO in accordance with regulatory requirements.<sup>198</sup>
381. For pension payments, the auditor ensures that any payments meet the minimum and maximum,<sup>199</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>200</sup> which is calculated by applying a percentage rate, dependent on the member's age,<sup>201</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>202</sup> and the income from assets that support the pension will not be tax exempt for the year.<sup>203</sup> The ATO guidelines for SMSFs *Funds – starting and stopping a pension [superannuation income stream]*<sup>204</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 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.

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<sup>195</sup> See regulation 5.08 of the SISR.

<sup>196</sup> Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.

<sup>197</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>198</sup> Regulation 6.19A SISR.

<sup>199</sup> Maximum payments exist for transition to retirement income streams (TRIS)s.

<sup>200</sup> See sub-regulation 1.06(9A)(a) of the SISR.

<sup>201</sup> See schedule 7 of the SISR.

<sup>202</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>203</sup> See sub-regulation 1.06(9A) and Schedule 7 of SISR.

<sup>204</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).



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>205</sup> or a charge over, or in relation to, a member's benefits.<sup>206</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>207</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>208</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>209</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;
  - (d) contributions received at a later date in respect of a period in which the member met the age restrictions; or

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<sup>205</sup> See regulation 13.12 of the SISR.

<sup>206</sup> See regulation 13.13 of the SISR.

<sup>207</sup> See ATO Tax Ruling TR 2010/1 *Income tax: Superannuation contributions*.

<sup>208</sup> See regulation 7.04 of the SISR.

<sup>209</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.

- (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>210</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 superannuation 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.
400. Ordinarily, the auditor checks to see that the classification of contributions are appropriate and allocated to the correct member account (see paragraphs 241 to 244 of this Guidance Statement).

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<sup>210</sup> ITAA 1997 section 292-85(2).

*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>211</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>212</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 contributions 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>213</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;
  - (b) valued at market value; and

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<sup>211</sup> See sub-regulation 7.04(4)(a) of the SISR.

<sup>212</sup> See ATO ID 2010/104 *Excess contributions tax: restitution of a 'mistaken' contribution*, which includes case citations.

<sup>213</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.

- (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 superannuation* form.<sup>214</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 superannuation.
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 a 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>215</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>216</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>217</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>218</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 members' accounts within 28 days after the end of the month in which the contributions were received.

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<sup>214</sup> See ATO form Downsizer contribution into superannuation (NAT 75073).

<sup>215</sup> Section 115 of the SISA.

<sup>216</sup> SMSF Regulator's Bulletin SMSFRB 2018/1 *The use of reserves by self-managed superannuation funds*.

<sup>217</sup> SMSFRB 2018/1.

<sup>218</sup> See sub-regulation 5.03(1) of the SISR.

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>219</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 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>220</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 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;

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<sup>219</sup> See sub-regulation 5.03(2) of the SISR.

<sup>220</sup> See regulation 9.04 of the SISR.

- (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>221</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>222</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>223</sup>

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<sup>221</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>222</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 [www.ato.gov.au/Calculators-and-tools/Electronic-super-audit-tool/?=redirected\\_esat](http://www.ato.gov.au/Calculators-and-tools/Electronic-super-audit-tool/?=redirected_esat) for further details.

<sup>223</sup> See 'Solvency' at paragraphs 417 to 418 of this Guidance Statement.

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.



## Appendix 1

(Ref: Para. 63)

### 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>224</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>224</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>225</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>225</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 auditor's 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 auditor's report may be provided to you as a signed hard copy or a signed electronic version.<sup>226</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>226</sup> The auditor should retain an original hard copy in the working papers.

*[Limitation of liability]<sup>227</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>227</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. 138)

### 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>228</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>228</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 superannuation 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 a SMSF, this will not result in a fund failing to meet the definition of a 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. 73)

## 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? <p>If so:</p> <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? <p>Either:</p> <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?

<b>Ref</b>	<b>Questions to be addressed in examining the trust deed</b>
<b>F.5</b>	Does the deed include specific provisions relating to the payment of death benefits?
<b>G</b>	<b>PENSIONS</b>
<b>G.1</b>	<p>Does the deed expressly allow for payment of pensions by the SMSF, including*:</p> <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>	<p>Does the deed permit borrowing in specific circumstances, including:</p> <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. 78)

## 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>229</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 procedures.</li> </ul> </li> <li>- Timing.</li> <li>- Extent – fully substantive, sampling, analytical review procedures 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>229</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>.

<b>Ref</b>	<b>Audit Procedure</b>
<b>B.3</b>	<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>B.4</b>	<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>
<b>C</b>	<b>FINANCIAL REPORT AND DISCLOSURE</b>
<b>C.1</b>	<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 auditor's 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>
<b>C.2</b>	<p><u>Opening Balances</u> - new engagements</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>
<b>C.3</b>	<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>
<b>D</b>	<b>UNDERLYING ACCOUNTING RECORDS</b>

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

Ref	Audit Procedure
<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>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>
<b>E.6</b>	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.
<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.
<b>F.3</b>	<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>
<b>F.4</b>	<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 SIS. 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
<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 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>
<b>F.9</b>	<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 collectables 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>

<b>Ref</b>	<b>Audit Procedure</b>
<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 superannuation:</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 Procedures</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 procedures.</li> </ul>
<b>K.3</b>	<p><u>Changes in Market Value</u></p> <ul style="list-style-type: none"> <li>Conduct analytical review procedures.</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 analytical review procedures 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 superannuation 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 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 procedures 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]