

GS 009
(October 2008)

Guidance Statement GS 009

Auditing Self Managed Superannuation Funds

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



Australian Government

Auditing and Assurance Standards Board

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

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

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

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 009 *Auditing Self Managed Superannuation Funds* as set out in paragraphs 1 to 372 and Appendices 1 to 6, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory details and suggested procedures on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new mandatory requirements.

Dated 31 October 2008

M H Kelsall
Chairman - AUASB

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Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors conducting:
 - (a) the audit of a Self Managed Superannuation Fund's (SMSF's) special purpose financial report^{1, 2} (financial audit); and
 - (b) the audit of a SMSF's compliance with the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR) (compliance audit).
- 2 This Guidance Statement does not apply to Australian Prudential Regulation Authority (APRA) regulated superannuation entities.³

Issuance Date

- 3 This Guidance Statement is issued on 31 October 2008 by the AUASB and replaces the specific guidance relating to the audit of SMSFs contained in Audit Guide No. 4 *The Audit of Superannuation Funds* (2004 Edition) and *The Audit of Superannuation Funds* 2005 Supplement to Audit Guide No. 4.

¹ SMSFs prepare different special purpose financial reports depending on whether the fund is an accumulation fund (defined contribution), a defined benefit fund or the benefit is wholly determined by reference to a life assurance policy. The specific reports are defined in paragraph 137.

² If the SMSF is a reporting entity then it will be required to prepare a general purpose financial report in accordance with the Australian Accounting Standards and the guidance in this Guidance Statement will have to be adapted accordingly. To determine whether a SMSF is a reporting entity, refer to Statement of Accounting Concepts SAC1: *Definition of the Reporting Entity* issued by the Australian Accounting Standards Board.

³ Auditors of APRA regulated superannuation entities, particularly auditors of small APRA funds, may find this Guidance Statement useful in designing, planning and conducting their audits, but it does not relate specifically to APRA funds.

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). SMSFs are primarily governed by the requirements of the SISA, SISR, the *Income Taxation Assessment Acts 1936 and 1997* (ITAA) and the fund's governing rules, which include the trust deed and applicable case law. Complying SMSFs are eligible for tax concessions, and may also receive Superannuation Guarantee (SG) contributions. Complying SMSFs are Australian superannuation funds which meet the requirements of the SISA and SISR and are "regulated"⁴ under the SISA.
- 5 The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved auditor⁵, who must complete both the financial audit and the compliance audit and sign the auditor's report before a SMSF may submit its Annual Return.⁶ The auditor reports to the trustees in the "approved form", as issued and updated from time to time, by the ATO,⁷ which includes opinions under two sections:
- (a) Part A: Financial report; and
 - (b) Part B: Compliance.
- 6 This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which auditors have with respect to conducting SMSF audit engagements, and to provide guidance to auditors on matters which the auditor considers when planning, conducting and reporting on the financial and compliance audits of a SMSF.

⁴ Regulated funds, under section 19 of the SISA, are funds which have a trustee, either a corporate trustee or governing rules which contain a pension power and have made an irrevocable election to become regulated in the approved form within the specified time.

⁵ Approved auditor is defined in paragraph 14.

⁶ From 1 July 2008 an Annual Return (NAT 71226-6.2008) is required to be submitted, which combines the information previously contained in the Income Tax and Regulatory Return and Member Contribution Statement.

⁷ The approved form auditor's report is contained within the *Instructions and form for approved auditors of SMSFs - Self-managed superannuation fund independent auditor's report* (NAT11466.07.2008). The auditor's report has been reproduced in Appendix 3 of this Guidance Statement and is available from the ATO's website www.ato.gov.au/superprofessionals.

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- 7 This Guidance Statement does not extend the responsibilities of the auditor beyond those which are imposed by the SISA, SISR, Auditing Standards (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 and compliance audits;
 - (b) Part A, which provides guidance on the financial audit; and
 - (c) Part B, which provides guidance on the compliance audit.
- 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 ASAs, in which references to the “auditor” includes an auditor conducting the financial audit of a SMSF;
 - (b) applicable ASAEs, specifically ASAE 3100 *Compliance Engagements*, in which references to the “assurance practitioner” include an auditor conducting a compliance audit of a SMSF;
 - (c) the SISA and SISR; and
 - (d) ATO Rulings, Interpretive Decisions and Guides.

Definition of a SMSF

- 10 A SMSF, by statutory definition,⁸ is a superannuation fund which satisfies the following conditions:
- (a) it has fewer than five members;
 - (b) each individual trustee or director of the corporate trustee is a member of the fund, unless it is a single member fund, in which case the sole member is either:

⁸ Section 17A of the SISA.

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- (i) a director of the corporate trustee or one of two directors who are related; or
- (ii) one of two individual trustees of whom the additional trustee may be anyone apart from an employee of the member, unless the employee is related;
- (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 the trustee or director in relation to the fund.

In circumstances where the SMSF fails to comply with this definition, it has up to six months to restructure in alignment with the definition before ceasing to be a SMSF.⁹

- 11 Allowable exceptions to the definition of SMSF in the SISA¹⁰ include:
- A legal personal representative appointed as trustee, or director of the corporate trustee, for a member who:
 - (i) is under a legal disability (usually a member under 18 years old);

⁹ Subsection 17A(4) of the SISA, with the exception of when a SMSF accepts members so that membership exceeds the limit of four in total, in which case it ceases to be a SMSF immediately under section 17A(5) of the SISA.

¹⁰ Subsection 17A(3) of the SISA.

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- (ii) for whom the representative holds an enduring power of attorney;¹¹ or
 - (iii) is deceased, up until death benefits are payable.
- A parent or guardian appointed as trustee for a member who is under a legal disability but does not have a legal personal representative.

Trustees' Responsibilities

- 12 The responsibilities of the SMSF's trustees are contained in the SISA, SISR, the trust deed and any other governing rules of the fund. The trustees have ultimate responsibility for the compliance of the SMSF with the SISA and SISR and any other legislation, such as the taxation legislation affecting SMSFs. Certain covenants affecting the behaviour of the trustees of a SMSF are deemed to be contained in the SMSF's governing rules under section 52 of the SISA, which are in summary:
- (a) to act honestly;
 - (b) to exercise care, skill and diligence;
 - (c) to act in the best interests of beneficiaries;
 - (d) to keep the money and assets of the SMSF separate from the money and assets held personally by the trustees and from those of any employer-sponsor of the SMSF;
 - (e) not to enter into a contract or agreement that would hinder the trustees in properly performing their duties;
 - (f) to formulate and give effect to an investment strategy;
 - (g) to formulate and give effect to a reserves strategy;¹² and
 - (h) to allow beneficiaries access to information and documents.

¹¹ The applicability of enduring powers of attorney in this circumstance will vary depending on the relevant state legislation.

¹² A reserves strategy is only required if reserves are held within the SMSF.

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The trustees' compliance responsibilities are summarised in the ATO's Guide for SMSF trustees *Role and responsibilities of trustees*.¹³

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

Auditor's Responsibilities

- 14 An approved auditor¹⁴ of a SMSF under the SISR¹⁵ is required to be an individual who is currently either:
- (a) a registered company auditor;
 - (b) a member of CPA Australia Ltd (CPA Australia), The Institute of Chartered Accountants in Australia (ICAA) or the National Institute of Accountants (NIA);
 - (c) a member or fellow of the Association of Taxation and Management Accountants (ATMA);
 - (d) a fellow of the National Tax and Accountants Association Ltd (NTAA);¹⁶ or
 - (e) the Auditor-General of the Commonwealth, a State or a Territory;

and is not a person in respect of whom a disqualification order is in force under section 131 of the SISA.

¹³ The ATO's Guide for SMSF trustees *Role and responsibilities of trustees* (NAT 11032-07.2007) is available at www.ato.gov.au/superprofessionals.

¹⁴ Approved auditor is defined under subsection 10(1) of the SISA.

¹⁵ Regulation 1.04(2)(a) and Schedule 1AAA of the SISR detail who may be an approved auditor of a SMSF. This differs from approved auditors of other superannuation entities under regulation 1.04(2)(b) of the SISR who must be either a registered company auditor or the Auditor-General of the Commonwealth, a State or a Territory.

¹⁶ Fellows of the NTAA must have a practising certificate from one of the professional accounting bodies, or at least three years full time experience as a practitioner and hold a recognised degree with an accounting major.

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- 15 In addition, SMSF auditors may be subject to competency requirements, for the audit of SMSFs, by virtue of their membership of a professional body.¹⁷ For example, members of CPA Australia, ICAA and NIA are required to comply with competency requirements¹⁸ when accepting and conducting SMSF audits. These include requirements to hold a practising certificate, maintain appropriate professional indemnity insurance, complete minimum continuing professional development in the audit of SMSFs and ensure staff have appropriate knowledge and experience and are properly supervised. Auditors ensure that they are up-to-date and compliant with any applicable competency requirements imposed by their professional bodies in accepting and conducting SMSF audits.
- 16 The auditor is required under the SISA to:
- (a) provide an auditor's report on the SMSF's operations for the year to the trustees in the approved form;¹⁹
 - (b) report in writing to a 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 to the ATO using the approved form Auditor/actuary contravention report (ACR) and instructions (ACR instructions),²⁰ if the auditor forms the

¹⁷ The NTAA anticipate issuing competency requirements in 2008 applicable to members who conduct SMSF audits.

¹⁸ *Competency Requirements for Auditors of Self-Managed Superannuation Funds* (February 2008) issued by Representatives of the Australian Accounting Profession, CPA Australia, ICAA and NIA.

¹⁹ Section 35C of the SISA.

²⁰ *Instructions for SMSF auditors and actuaries – Completing the Auditor/actuary contravention report* containing the *Auditor/actuary contravention report* (NAT 11299-05.2008) together comprise the approved form for the purposes of sections 129 and 130 of the SISA. See: www.ato.gov.au/superprofessionals.

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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).

17 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).

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

Conduct the Financial Audit in Accordance with ASAs

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

- (a) *ASA 200 Objective and General Principles Governing an Audit of a Financial Report* requires the auditor to:
 - (i) comply with the relevant ethical requirements relating to audit engagements;

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- (ii) comply with each of the Auditing Standards relevant to the audit;
 - (iii) plan and perform an audit by exercising professional judgement;
 - (iv) plan and perform an audit with an attitude of professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated;
 - (v) plan and perform the audit to reduce audit risk to an acceptably low level; and
 - (vi) conduct the audit with the aim of obtaining reasonable assurance that the report taken as a whole is free from material misstatement.
- (b) *ASA 210 Terms of Audit Engagements* requires the terms of the audit engagement to be agreed in writing, ordinarily by way of an audit engagement letter, which need not be sent each period unless the terms of the engagement change.
- (c) *ASA 220 Quality Control for Audits of Historical Financial Information* requires the engagement partner to:
- (i) consider whether the audit team has complied with the relevant ethical requirements, which include the fundamental principles of professional ethics, being integrity, objectivity, professional competence and due care, confidentiality and professional behaviour;
 - (ii) form a conclusion on compliance with the independence requirements;
 - (iii) ensure that appropriate procedures have been followed regarding acceptance and continuance of the engagement;
 - (iv) ensure that the engagement team collectively has the appropriate capability, competence and time to perform the audit;

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- (v) take responsibility for the direction, supervision and performance of the audit; and
 - (vi) ensure that there is sufficient appropriate audit evidence to form an opinion and issue an auditor's report.
- (d) *ASA 230 Audit Documentation* requires preparation of documentation:
 - (i) that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was conducted in accordance with the ASAs and applicable legal and regulatory requirements;
 - (ii) so that another auditor, without any previous experience of the audit, would be able to understand the nature, timing and extent of the audit procedures performed, results of those procedures, audit evidence obtained, significant matters arising and the audit conclusion reached; and
 - (iii) which is assembled into a file on a timely basis upon completion of the audit.
- (e) *ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report* requires the auditor, in planning and performing the audit to reduce the audit risk to an acceptably low level,²¹ to consider the risks of material misstatements in the financial report due to fraud.²²
- (f) *ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report* requires the auditor to obtain a general understanding of the legal and regulatory framework applicable to the entity in planning the audit, perform further

²¹ Audit risk is the risk that a material misstatement will occur and not be detected.

²² Due to the few persons involved in the operation of an SMSF, there is ordinarily limited segregation of duties, which may impact on the auditor's assessment of fraud risk, as trustees, administrators or advisers may have an ability to override controls. SMSFs are not afforded the same level of protection as APRA regulated funds, for which provision is made, in certain circumstances, for members to be compensated for losses incurred in the event of fraud.

audit procedures to help identify instances of non-compliance with those laws and regulations where non-compliance ought to have been considered when preparing the financial report and obtain sufficient appropriate audit evidence about compliance with those laws and regulations which the auditor considers have an effect on the determination of material amounts and disclosures in the financial report. For example non-compliance with requirements of the SISA, SISR or taxation legislation by an SMSF, such as the failure to meet the definition of a SMSF, may expose the SMSF to additional tax liabilities which may impact materially on the SMSF's financial report.

- (g) *ASA 260 Communication of Audit Matters with Those Charged with Governance* requires the auditor to identify those charged with governance, usually the trustees in the audit of an SMSF, and communicate with them matters of governance interest that arise from the audit on a timely basis.
- (h) *ASA 300 Planning an Audit of a Financial Report* requires the auditor to perform preliminary engagement activities, including evaluation of their own compliance with ethical requirements including independence, to establish and document an overall audit strategy, develop and document an audit plan to reduce audit risk to an acceptably low level and plan the nature, timing and extent of direction and supervision of the engagement team members and review of their work.
- (i) *ASA 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* requires the auditor to obtain an understanding of the entity (the SMSF) and its environment, including its internal controls sufficient to identify and assess the risks of material misstatement of the financial report and to design and perform further audit procedures.
- (j) *ASA 320 Materiality and Audit Adjustments* requires the auditor to consider materiality when determining the nature, timing and extent of audit procedures and in evaluating the effect of misstatements.
- (k) *ASA 330 The Auditor's Procedures in Response to Assessed Risks* requires the auditor to determine overall responses to

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assessed risks and design and perform further appropriate audit procedures to respond to the assessed risks. This is done in order to reduce the audit risk to an acceptably low level. Further audit procedures may comprise only substantive procedures or, when reliance is placed on the operating effectiveness of controls to reduce substantive testing, include tests of controls.

- (l) *ASA 402 Audit Considerations Relating to Entities Using Service Organisations* requires the auditor to determine whether the service organisation's activities are significance to the entity and the relevant to the audit and, if so, the auditor is required to obtain a sufficient understanding of the entity and its environment to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risk. The auditor may need to obtain evidence of the operating effectiveness of the service organisation's controls and may use a report of a service organisation auditor to provide that evidence. In using the service auditor's report, the auditor considers the professional competence of the service auditor, the nature and content of the report, the scope of the work performed and whether the nature, timing and extent of the tests of controls and results that are relevant, provide sufficient appropriate audit evidence about the operating effectiveness of those controls to support the assessed risks of material misstatement. *Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services* provides further guidance to an auditor in obtaining sufficient appropriate audit evidence when the SMSF uses a third party service organisation for investment management services, including custody, asset management, property management, superannuation member administration, investment administration or registry.
- (m) *ASA 500 Audit Evidence* requires the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. It requires the auditor to implement procedures to obtain evidence about the accuracy and completeness of the audit

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evidence, as well as use assertions²³ for classes of transactions, account balances and disclosures.

- (n) ASA 505 *External Confirmations* requires the auditor to request external confirmations where they are necessary to obtain sufficient appropriate audit evidence at the assertion level.
- (o) ASA 508 *Enquiry Regarding Litigation and Claims* requires the auditor to obtain sufficient appropriate audit evidence regarding whether all material legal matters have been identified, the financial impact of those matters identified and the adequacy of their accounting treatment. For an SMSF, material legal matters may include: the divorce of a member which may threaten the solvency 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.
- (p) ASA 510 *Initial Engagements – Opening Balances* requires the auditor to obtain sufficient appropriate audit evidence that the opening balances do not contain material misstatements, the prior period closing balances have been correctly stated and brought forward and that appropriate accounting policies are applied consistently.
- (q) ASA 520 *Analytical Procedures* requires the auditor to utilise analytical procedures as risk assessment procedures to obtain an understanding of the entity and its environment and in the overall review at the end of the audit.
- (r) ASA 545 *Auditing Fair Value Measurements and Disclosures* requires the auditor to obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the applicable financial reporting framework, which is chosen by the trustee in the case of an SMSF. The requirements and guidance in ASA 545 are particularly relevant to the audit of trustees' valuations, which are common in SMSF's.

²³ Assertions used by the auditor are listed in paragraphs 142 of this Guidance Statement.

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- (s) ASA 560 *Subsequent Events* requires the auditor to perform audit procedures 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.
- (t) ASA 570 *Going Concern* requires the auditor to consider the appropriateness of use of the going concern assumption in the preparation of the financial report.
- (u) ASA 580 *Management Representations* requires the auditor to obtain acknowledgement from management that they are responsible for the fair presentation of the financial report in accordance with the applicable reporting framework and to document in writing any verbal representations from management. In the case of a SMSF these representations are obtained from the trustees.
- (v) ASA 620 *Using the Work of an Expert* requires the auditor, when using the work of an expert, such as an actuary or valuer, to obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit and to evaluate the professional competence of the expert. Further guidance is provided in GS 005 *Using the Work of an Actuary*.
- (w) ASA 701 *Modifications to the Auditor's Report* requires the auditor to modify the auditor's report when it is not possible to issue an unqualified audit opinion. The circumstances may dictate that, due to a conflict, a significant uncertainty, a limitation of scope or a lack of sufficient appropriate audit evidence, that it is not possible to issue an unqualified audit opinion. In these circumstances ASA 701 requires the auditor to issue either a qualified audit opinion, a disclaimer of opinion or an adverse opinion. In specific circumstances it is appropriate to issue an emphasis of matter to highlight a particular issue.
- (x) ASA 710 *Comparatives* requires the auditor to qualify the auditor's report where the prior period's report was qualified and the matter remains unresolved, or where the financial report for the prior period was audited by another auditor and the incoming auditor is unable to obtain sufficient appropriate audit evidence regarding the comparatives.

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- (y) ASA 800 *The Auditor's Report on Special Purpose Audit Engagements* specifies the form of the auditor's report on special purpose financial reports, which for SMSFs is reflected in the approved form auditor's report issued by the ATO.²⁴

Conduct the Compliance Audit in Accordance with Applicable ASAEs

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

- Comply with applicable ASAEs.
- Comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
- Implement quality control procedures.
- Meet acceptance and continuance procedures.
- Agree the terms of the engagement in writing.
- Plan the compliance engagement so that it will be performed effectively.
- Consider materiality and compliance engagement risk²⁵ when planning and performing the compliance engagement.
- Reduce compliance engagement risk to an acceptable level in the circumstances of the compliance engagement.

²⁴ If the SMSF is a reporting entity the SMSF is required to prepare a general purpose financial report and the auditor refers to the requirements in ASA 700 *The Auditor's Report on a General Purpose Financial Report*.

²⁵ Compliance engagement risk is defined in ASAE 3100 paragraph 11 as: the risk that the assurance practitioner expresses an inappropriate conclusion when the entity (SMSF) is materially non-compliant with the requirements as measured by the suitable criteria (SISA sections and SISR regulations specified in the approved form auditor's report).

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- Obtain sufficient appropriate evidence on which to base the conclusion and evaluate the impact on the conclusion of any compliance breaches noted.
- Consider the effect of events up to the date of the compliance report.
- Prepare, on a timely basis, documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and evidence that the engagement was performed in accordance with ASAE 3000 and ASAE 3100.
- Express a conclusion about the subject matter information, which for an SMSF is compliance in all material respects with the SISA and SISR requirements specified in the approved form auditor's report.

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

Preliminary Engagement Activities

- 22 Prior to commencing the audit, the auditor performs a number of preliminary tasks to gain confidence that undertaking the audit is appropriate from a client and ethical point of view. ASA 300 requires the auditor, prior to beginning an audit engagement, to:
- (a) perform procedures regarding the acceptance and continuance of the client relationship and the specific audit engagement;
 - (b) evaluate compliance with relevant ethical requirements relating to the audit engagement, including independence; and
 - (c) establish an understanding of the terms of engagement.

These procedures are outlined below.

Acceptance and Continuance Procedures

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- 23 Under the ASAs and ASAE 3000 the auditor only accepts or continues an engagement if nothing comes to the auditor's attention to indicate that the requirements of the fundamental ethical principles, the Auditing Standards and ASAE 3000 will not be satisfied.
- 24 For an initial audit, where there has been a change of auditor, the auditor communicates with the previous auditor in accordance with the relevant ethical requirements to ensure that there is no impediment or restriction in accepting and conducting the audit. The new auditor may need to seek permission from the trustees to communicate with the previous auditor.

Ethical Requirements

- 25 In accordance with ASA 200 and ASAE 3000 the auditor is required to comply with relevant ethical requirements relating to audit engagements, which include the applicable code of ethics of a professional accounting body (the Code of Ethics).²⁶ The fundamental principles of professional ethics comprise:
- (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

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

²⁶ In Australia, the applicable code of ethics of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional and Ethical Standards Board. This Code of Ethics has been adopted by CPA Australia, NIA and ICAA and is applicable to their members. Members of the ATMA are also required to conform with this code under the ATMA by-laws. Fellows of the NTAA who obtained fellowship by virtue of holding a practising certificate from one of the professional accounting bodies, will be members of one of those bodies and consequently are also required to comply with the Code of Ethics.

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- 26 Under ASA 220 and ASAE 3100, the auditor accepts an engagement only when the auditor is satisfied that they, and the engagement team if applicable, have met the relevant ethical requirements.
- 27 The auditor ensures that they possess, or if applicable the engagement team conducting the audit collectively possess, the appropriate capabilities, competence and time to conduct the audit in accordance with the ASAs, applicable ASAEs and legislative requirements. Capabilities and competence are developed through a variety of means, including professional education, training, practical experience and coaching and mentoring by more experienced staff. 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.
- 28 Under ASA 250 the auditor obtains a general understanding of the legal and regulatory environment applicable to the SMSF. A sound and current knowledge of superannuation legislation, including the SISA and SISR, relevant taxation legislation and ATO Rulings and Determinations, is necessary for the auditor to meet this requirement.

Independence

- 29 ASA 220 requires the engagement partner to form a conclusion on compliance with the independence requirements applying to the audit engagement which are contained in the Code of Ethics. ASAE 3100 requires compliance with the fundamental ethical principles on compliance audits, for which the concept of independence is integral.
- 30 Overall, independence requires both:
- (a) independence of mind - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and
 - (b) independence in appearance - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the engagement team's, integrity, objectivity or professional scepticism had been compromised.

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- 31 The Code of Ethics provides a framework of principles that auditors and members of audit teams use to ensure that independence of mind and independence in appearance are not compromised.
- 32 When assessing independence the auditor:
- (a) identifies any threats to independence;
 - (b) evaluates the significance of the threats; and
 - (c) if the threats are other than clearly insignificant, identifies and applies safeguards to eliminate or reduce the threats to an acceptable level.
- 33 The threats to independence in a SMSF audit engagement may include:
- *Self-interest threat*, which occurs when a firm or a member of the audit team could benefit from a financial interest in, or other self-interest conflict with, an audit client. For example, this could arise if the auditor, member of the audit team or their immediate family member is a trustee or member of the SMSF or the SMSF is the sole client or a significant client of the firm.
 - *Self review threat*, which occurs when any product such as a set of financial accounts, or a judgement of a previous engagement needs to be re-evaluated in reaching conclusions on the audit engagement so that the auditor is reviewing their own work. For example where a member of the audit team prepared the SMSF's financial report or accounting records.
 - *Advocacy threat*, which occurs when a firm, or member of the audit team, promotes, or may be perceived to promote an audit client's position to the point that objectivity may be, or be perceived to be, compromised. For example, when an audit team member acts as an advocate for the SMSF in litigation or a dispute.
 - *Familiarity threat*, which is when, by virtue of a close relationship with an audit client, its directors, officers or employees, the firm or a member of the audit team becomes too sympathetic to the client's interests. For example, when a close family member of the auditor is a trustee or member

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of the SMSF or an employee of the SMSF's administrator or where the auditor has a long association with a trustee.

- *Intimidation threat*, which is when a member of the audit team is deterred from acting objectively by threats, actual or perceived, from the trustees of the SMSF or the directors, officers or employees of a related entity of a trustee. For example, a threat of replacement over a disagreement with the application of an accounting principle or the loss of other general accounting or tax work if the auditor's opinion is modified or an ACR is submitted to the ATO. An intimidation threat may also arise where a SMSF administrator pressures the auditor to reduce inappropriately the extent of work performed in order to reduce fees in circumstances where the administrator refers a significant number of SMSF audit clients.

34 Safeguards to independence may be:

- (a) created by the profession, legislation or regulation;
- (b) within the SMSF; or
- (c) within the firm's own systems and procedures.

35 Safeguards created by the profession, legislation or regulation, generally include the following:

- Educational, training and experience requirements for entry into the profession.
- Continuing education requirements.
- Professional standards, monitoring and disciplinary processes.
- External review of a firm's quality control system.
- Legislation covering the independence requirements of the firm.
- Recommendations on independence from relevant regulators.

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- 36 Safeguards within the SMSF may be limited, as by its very nature, a SMSF is a small entity with limited scope for segregation of duties. Hence reliance on internal safeguards may not be possible and the auditor ordinarily relies on the safeguards created by the profession, legislation and regulation and those safeguards created by internal systems within the auditor's firm to enhance independence.
- 37 In evaluating threats to independence and considering applicable safeguards, the auditor considers the nature of the SMSF, the range of services provided to the audit client and the relationships the auditor and the audit team have with the SMSF's trustees, financial adviser, accountants, administrator, actuary and any other person or organisation involved with the management or operation of the SMSF.
- 38 Assisting an audit client in the preparation of accounting records or financial reports may create a self-review threat when those records and reports are subsequently audited by the same firm. If the firm's staff also make management decisions for the SMSF, which may occur if the firm is providing administrative services to the SMSF, there are no safeguards available to reduce the self review threat to an acceptably low level, other than withdrawal from either the administration or the audit engagement.
- 39 If, however, the accounting services provided are of a routine or mechanical nature, such as posting transactions and entries approved by the SMSF or preparing the financial report based on a trial balance provided by the SMSF, the self-review threat may be reduced to an acceptably low level by applying safeguards, including:
- Making arrangements so accounting services are not performed by a member of the audit team.
 - Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the SMSF.
 - Requiring the source data for the accounting entries to be originated by the SMSF.
 - Requiring the underlying assumptions to be originated and approved by the SMSF.

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- Obtaining the SMSF's approval for any proposed journal entries or other changes affecting the financial report.
 - Obtaining the SMSF's acknowledgement of their responsibility for the accounting work performed by the firm.
 - Disclosing to the trustees the firm's involvement in both engagements.
- 40 Provision of taxation services to a SMSF which is also an audit client would not generally create a threat to independence.
- 41 Provision of financial advice to a SMSF which is also an audit client may create advocacy and self-review threats. These threats may be reduced to an acceptably low level by safeguards such as:
- Implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF.
 - Using staff and partners who are not members of the audit team to provide the financial advice.
 - Ensuring that the individual providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.
- 42 Where the audit firm or individual partner is unduly reliant on the audit fees from a particular SMSF or group of SMSFs, such as those SMSFs referred by a certain advisor or administrator, the concern about the possibility of losing the referrals may create a self-interest or intimidation threat. Safeguards may include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed or obtaining an external quality review.
- 43 Safeguards that the auditor may apply to manage other identified self interest, advocacy, familiarity or intimidation threats to independence may include:
- Prohibiting the holding of direct, or material indirect, financial interests by the auditor in closely held investments of the SMSF, such as a joint venture or property syndicate.

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- Removal from the SMSF audit team of any personnel with a close relationship with the trustees of the SMSF, including relatives of the trustees.
- 44 In situations in which no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the audit engagement.
- 45 Appendix 6 of this Guidance Statement provides a number of practical examples of SMSF audit engagements and the threats to independence posed by those engagements, as well as some appropriate safeguards which may address those threats.

Professional Judgement and Scepticism

- 46 ASA 200 requires the auditor to plan and perform an audit exercising professional judgement, and with an attitude of professional scepticism.
- *Professional judgement* emanates typically from the auditor's expertise, experience, knowledge and training. When exercising professional judgement, the auditor maintains independence and objectivity and adopts an attitude of professional scepticism in order to achieve the audit objectives.
 - *Professional scepticism* requires the auditor to maintain a questioning mind as to the validity of audit evidence presented and representations of the trustees. The auditor remains alert to contradictory information or information that brings into question the validity of the evidence presented.

Quality Control

- 47 Under ASA 220 and ASAE 3100 the engagement partner implements procedures to ensure quality control systems are applied to both the financial and compliance audit engagements including:
- Taking responsibility for overall quality on the financial and compliance engagements.
 - Considering whether members of the engagement team have complied with relevant ethical requirements.

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- 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 appropriate and have been adequately documented.
- Assigning audit engagement teams which possess collectively the appropriate capabilities, competence and time to perform the engagements in accordance with AUASB Standards and regulatory and legal requirements.
- Directing, supervising and performing the audit engagement in accordance with AUASB Standards and regulatory and legal requirements;
- Issuing an auditor's report that is appropriate in the circumstances and supported by sufficient appropriate audit evidence.
- Consulting appropriately on difficult or contentious matters both within the engagement team and with others within or outside the firm, and documenting and implementing agreed conclusions.
- Monitoring quality adequately against firm and professional standards, including the ASAs and ASAEs.

Agree the Terms of Engagement

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

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- 49 The trustees are required to appoint the auditor at least 30 days prior to the date that the auditor's report is due.²⁷ Either the trustees may be involved in the selection and appointment of the auditor or the SMSF's accountants, administrators or financial planners may assist with the sourcing and recruitment of an auditor for the SMSF. In either case, the trustees approve the appointment in writing before the audit commences, usually by signing the engagement letter and indicating their approval in a trustee minute.
- 50 For a SMSF audit engagement, the engagement letter ordinarily:
- Describes the objective and scope of the financial and compliance audits, including the sections and regulations of SISA and SISR against which the auditor will be reporting.
 - Identifies the responsibilities of the auditor.
 - Identifies the responsibilities of the trustees, including:
 - Establishing and maintaining an adequate internal control structure.
 - Preparing the SMSF's financial report.
 - Keeping the records of the SMSF secure and for the statutory time periods.
 - Conducting the affairs of the SMSF in compliance with all relevant provisions of SISA, SISR and the trust deed throughout the year.
 - Sets out the reporting requirements of the auditor, including those imposed by sections 129 and 130 of the SISA.
 - Includes a notice to the trustees that the audit records and auditor's work may be subject to review by the professional body of which the auditor is a member or by the ATO.

²⁷ Requirement under regulation 8.02A of the SISR. If the auditor is appointed less than 30 days before the audit report is due, then the auditor may report the contravention to the trustee under section 129 or decline the engagement.

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- 51 ASA 210 does not require engagement letters to be issued every year. However, on recurring audits, the auditor considers whether it is appropriate to confirm the terms of the engagement in writing due to the circumstances of the engagement, including when there is:
- A revision of the terms of the engagement.
 - An indication that the trustees misunderstand the objective and scope of the audit.
 - A change in trustees.
 - A significant change in the nature or size of the SMSF.
 - Significant changes in the SISA, SISR or other regulatory requirements, such as changes to the requirements to be reported on in the approved form auditor's report or ACR.
- 52 An example engagement letter is attached as Appendix 1 of this Guidance Statement.

Planning

- 53 Planning an audit involves a number of closely related procedures which include:
- Establishing the overall audit strategy for the audit.
 - Developing and documenting an audit plan in order to reduce audit risk and compliance engagement risk to an acceptably low level.
 - Updating the audit strategy and the audit plan during the course of the audit.
 - Planning the nature, timing and extent of direction and supervision of engagement team members and review of their work.
- 54 The auditor plans the financial and compliance audits 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.

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- 55 Adequate planning may:
- Ensure appropriate attention to important areas of the audit engagement.
 - Identify potential problems on a timely basis.
 - Assist in the proper organisation and management of the audit engagement in order for it to be performed in an effective manner.
 - Assist the auditor in assigning work properly to audit team members, and facilitates the direction, supervision and review of the team's work.
 - Assist, where applicable, in the coordination of work performed by other auditors, actuaries and experts.
- 56 The nature, timing and extent of planning activities will vary according to:
- The size and complexity of the SMSF.
 - Whether the SMSF was a complying fund in prior years.
 - Whether the SMSF is a defined benefit or accumulation fund.
 - 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 they are internally or externally managed.
 - The availability of service auditor's reports for services provided by service organisations.
 - Whether the employer-sponsor is also a client of the auditor.
 - The potential and any known previous compliance issues.
 - The auditor's previous experience, if any, with the SMSF.

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- The due date for lodgement of the SMSF's Annual Return to the ATO.

57 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

58 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 audit. 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.

59 The complexity of the audit strategy will vary with the size and complexity of the SMSF.²⁸ 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.

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

61 In gaining this preliminary understanding of the SMSF, the auditor reviews the current trust deed to verify whether:

- The trust deed was properly executed.
- The SMSF has current and appropriately empowered trustees.
- The SMSF was established with either a corporate trustee or to pay a pension.

²⁸ ASA 300 provides guidance on establishing the audit strategy for smaller entities.

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- The trust deed complies with or has a mechanism to comply with the SISA and SISR and changes thereto.
- The powers to accept contributions and pay benefits, in the form permitted by the SISA and SISR, are included.

The covenants in subsection 52(2) of the SISA are deemed to be included in the governing rules, even if they are not specifically included. A comprehensive list of considerations in examining the SMSF's trust deed is included in Appendix 4 *Self Managed Superannuation Fund Trust Deed Audit Planning Checklist*.

- 62 It is possible for the trust deed to be more restrictive than the SISA and SISR and prohibit or limit the trustees' actions or powers. However, if the Deed is more expansive than the SISA and SISR, then the SISA and SISR will prevail.

The Audit Plan

- 63 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 in order to reduce audit risk to an acceptably low level and evidences work performed to facilitate proper review, supervision of the audit team and any external quality review.
- 64 The audit plan is dynamic and is required to be updated if necessary during the course of the audit. Audit evidence obtained may trigger a revision of the initial risk assessment and a need for further audit procedures, which is documented accordingly.
- 65 Often, the audit plan for a SMSF takes the form of a checklist which assists in maintaining quality control for the engagement as required by ASA 220. However standardised checklists need to be tailored specifically to reflect the particular circumstances and nature of the SMSF and the audit evidence available.

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- 66 The audit plan encompasses financial audit procedures, such as the illustrative financial audit procedures listed in Appendix 5 of this Guidance Statement, as well as compliance procedures.²⁹

Risk Assessment Procedures

- 67 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.
- 68 Under ASA 315 the auditor is required to examine the internal controls of the SMSF and document the auditor's understanding of the control environment. ASAE 3100 requires the auditor to document the key elements of the compliance framework, such as procedures for identifying, assessing and reporting compliance incidents and breaches.
- 69 Under ASA 250 the auditor is required to consider whether the SMSF has breached the SISA or SISR previously and whether there is any outstanding correspondence or unresolved issues with the ATO. Any such matters identified will impact on the risk assessment and the auditor's assessment of the compliance framework.
- 70 SMSFs are often small entities, with a close and related membership where control is vested in a few individuals. There may be little or no opportunity for implementing proper segregation of duties in these circumstances. Consequently, the auditor may assess the SMSF's control environment and compliance framework as ineffective, in which case the auditor will be unable to rely on the effectiveness of the internal controls to reduce substantive testing.

²⁹ Illustrative compliance procedures or compliance checklists are available as guidance for the SMSF auditor, such as *Instructions for Auditors of SMSFs - Auditing a Self Managed Super Fund –Questions and statements to consider when auditing a self managed super fund* (NAT 16308-08.2008) issued by the ATO, which is available at www.ato.gov.au/superprofessionals. In addition, the ATO's electronic SMSF audit tool (eSAT), for use in conducting the compliance audit, is due to be issued in 2008.

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As a result the auditor may design and perform further audit procedures which are primarily or entirely substantive procedures.

Materiality

- 71 ASA 320 requires the auditor to consider materiality when determining the nature, timing and extent of financial audit procedures and evaluating the effect of misstatements identified in the financial report. Similarly, under ASAE 3100 the auditor considers materiality when planning and performing the compliance audit 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.
- 72 The auditor's preliminary assessment of materiality is based largely on quantitative factors, whereas when assessing the outcome of audit procedures, including the materiality of misstatements identified in the financial audit or contraventions identified in the compliance audit, the auditor considers both their amount (quantitative) and nature (qualitative).
- 73 Materiality differs in nature between a financial audit and a compliance audit and is discussed separately within both Part A (paragraphs 143 to 146) and Part B (paragraph 278) respectively of this Guidance Statement.

Audit Evidence

- 74 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 and financial audits. The auditor determines the nature, timing and extent of audit procedures to be performed, which may be either tests of controls or substantive procedures.
- 75 ASA 500 and ASAE 3100 require the auditor in the conduct of the financial and compliance audits 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,

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that is, its relevance and its reliability, the higher the quality the less evidence may be required. The auditor considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence gathering procedure for which there is no alternative. The auditor uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the audit opinion.

- 76 Audit evidence means all the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based, and includes the information contained in the accounting records underlying the financial report and other information. For a SMSF this includes financial reports, trustees' minutes, investment holding certificates, contracts of sale, bank statements, invoices, receipts, titles, legal advice, correspondence, emails, Annual Returns, deposit books and cheque butts, which may be in paper or electronic form. Audit evidence, which is cumulative in nature, includes evidence obtained from audit procedures performed during the course of the audit and may include evidence obtained from previous audits and other sources.
- 77 Audit evidence is generally more reliable when:
- Obtained from an independent source.
 - Controls are operating effectively.
 - Obtained directly by the auditor.
 - In documentary form.
 - It comprises of original documents.
- 78 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.

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- 79 ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence, which include:
- Inspection of records or documents.
 - Inspection of tangible assets.
 - Observation.
 - Enquiry.
 - Confirmation.
 - Recalculation.
 - Reperformance.
 - Analytical review.
- 80 ASA 530 *Audit Sampling and Other Means of Testing* requires the auditor to determine the appropriate means for selecting items for testing. Due to the specific nature of SMSFs and limited internal control environment, the auditor may decide on a highly substantive method of testing. This may involve examining the entire population of items that make up a class of transactions or account balance, when the population constitutes a small number of large value items or when there is a significant level of risk and other means do not provide sufficient appropriate audit evidence.

Inspection of Records or Documents

- 81 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.
- 82 Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a share or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence

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relevant to the SMSF's application of accounting policies, such as revenue recognition.

Inspection of Tangible Assets

- 83 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

- 84 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

- 85 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.
- 86 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.
- 87 Enquiry alone ordinarily does not provide sufficient audit evidence to detect a material misstatement at the assertion level, nor sufficient evidence of the operating effectiveness of controls, therefore the auditor performs further audit procedures to obtain sufficient appropriate audit evidence.

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- 88 The auditor obtains written representations from the trustees or management to confirm responses to oral enquiries on material matters when other sufficient appropriate audit evidence cannot reasonably be expected to exist or when the other audit evidence obtained is of a lower quality.³⁰

Confirmation

- 89 Confirmation, which is a specific type of enquiry, is the process of obtaining a representation of an existing condition or information directly from a third party. For example, the auditor may seek direct confirmation of cash balances with the SMSF's bank. Confirmations are frequently used in relation to account balances and their components.³¹

Recalculation

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

Reperformance

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

Analytical Procedures

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

³⁰ See ASA 580 for further requirements and explanatory guidance on written representations.

³¹ See ASA 505 for further requirements and explanatory guidance on confirmations.

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- 93 Analytical review procedures may be utilised to compare and contrast how the SMSF has performed over two or more consecutive reporting periods. Common analytical procedures include comparing balances, calculating ratios and trend analysis. Major variations, inconsistencies or other deviations may warrant further investigation particularly where the difference is not easily understood, not explained sufficiently by the trustees or deviates from predicted amounts.
- 94 Ordinarily, an auditor reviews the movement in the member balances from one period to another in the preliminary planning phase of the audit. This process identifies the movement in the balance from contributions and investment earnings as well as any reduction in balances due to benefit payments or expenses such as fees, charges or insurance premiums deducted. The auditor uses analytical review to assess whether the member balances are reasonable given the overall circumstances of the SMSF.

Audit Documentation

- 95 ASA 230 and ASAE 3100 require the auditor to prepare, on a timely basis, audit documentation that is sufficient and appropriate to provide:
- (a) a basis for the auditor's report; and
 - (b) evidence that the audit was performed in accordance with ASAs, applicable ASAEs and applicable legal and regulatory requirements.
- 96 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.
- 97 In assessing the extent of documentation, the auditor considers what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand:
- (a) the nature, timing, and extent of the audit procedures performed to comply with ASAs, applicable ASAEs and applicable legal and regulatory requirements;

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- (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.

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

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

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

Nature of Documentation

99 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. Audit documentation, however, is not a substitute for the SMSF's accounting records.

100 Oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

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- 101 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.
- 102 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.
- 103 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

- 104 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.
- 105 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.

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- Findings that could result in a modification to the auditor's report.
- 106 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

- 107 Under ASA 580 and ASAE 3100 the auditor seeks written representations from the trustees regarding financial and compliance matters. These written representations are generally in the form of a representation letter which may confirm both verbal representations made during the course of the audit as well as other matters requiring written confirmation.
- 108 With respect to the financial audit of a SMSF, under ASA 580 the auditor obtains written representations from the trustees, including that they:
- Acknowledge responsibility for the fair presentation of the financial report in accordance with the adopted applicable financial reporting framework.
 - Have approved the financial report.
 - Confirm specified matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
 - Acknowledge their responsibility for the design and implementation of internal control to prevent and detect error.
 - Believe the effect of uncorrected misstatements aggregated by the auditor are immaterial, both individually and in aggregate, to the financial report.
- 109 The auditor may also seek representations under ASAE 3100, with respect to the compliance audit, that the trustees:
- Confirm specified matters material to the compliance audit.

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- Have conducted the affairs of the SMSF in compliance with the SISA and SISR throughout the period.
- 110 Upon receipt of a representation, either verbally or written, 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.
- 111 Representations by the trustees cannot replace other evidence the auditor could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the financial report or evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the audit, even if a representation from the responsible party has been received on the matter. In such circumstances, ASA 701 and ASAE 3100 require the auditor to express a qualified opinion or a disclaimer of opinion.
- 112 An example Trustee Representation Letter which covers both the financial and compliance audits is included as Appendix 2 of this Guidance Statement.

Service Organisations

- 113 SMSFs may use service organisations to provide services such as investment management services including:
- Custody.
 - Asset management.
 - Property management.
 - Superannuation member administration.
 - Investment administration, including fund accounting and/or fund administration.
 - Registry.

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These management services may take various forms including WRAP³² accounts, individually managed portfolio services, individual mandates or platform investments.

- 114 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.
- 115 Nevertheless, location of audit evidence at the service organisation does not alter the overall scope and objective of the financial and compliance audits of the SMSF. Therefore, it remains the responsibility of the auditor to obtain sufficient appropriate audit evidence to support the auditor's financial and compliance audit 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.
- 116 The use of a service organisation may provide the auditor with the opportunity to reduce substantive testing for balances and transactions maintained by the service organisation, if reliance can be placed on the service organisation's controls. ASA 402 establishes requirements and provides guidance regarding the use of controls reports from service organisations as evidence for a financial audit. In addition, GS 007³³ provides further guidance where the services provided to the SMSF are investment management services. Controls reports prepared under ASA 402 and GS 007 are not intended to provide any assurance with respect to controls over compliance with SISA or SISR and consequently those reports may not contain any evidence of the operating effectiveness of controls over compliance. Nevertheless where controls over compliance with the requirements of SISA and SISR relevant to the SMSF are included in the controls report prepared by a service organisation

³² A "WRAP" or "Wrap Service" is an administrative and reporting service that combines and reports on an investor's total investment portfolio in a single report. WRAPS combine reporting on such investments including bank accounts, listed securities, corporate actions and managed funds which are held within the portfolio. Some Wrap Services also provide a service where other assets, such as property and exotic assets, can be added to the report independently to provide a more comprehensive report for the investor.

³³ GS 007 is applicable for periods commencing 1 July 2008. For prior periods the guidance in AGS 1026 *Superannuation Funds - Auditor Reports on Externally Managed Assets* is applicable.

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then it may provide the auditor with the opportunity to reduce substantive testing over compliance matters maintained by the service organisation.

- 117 In obtaining an understanding of the SMSF and its environment for the financial audit, under ASA 402 the auditor determines the significance of the service organisation's activities to the SMSF and the relevance to the audit. In doing so, the user auditor determines:
- The nature and materiality of the transactions processed or accounts affected by the service organisation.
 - The nature of the relationship between the SMSF and the service organisation, including the contractual terms applying to the services provided by the service organisation.
- 118 Where the auditor concludes that the services provided by the service organisation are significant to the SMSF and relevant to the audit, under ASA 402 there are four options for obtaining evidence for the financial audit relating to the controls at the service organisation over the services provided to the SMSF. These are:
- (a) visiting the service organisation to obtain the information required;
 - (b) performing tests of the SMSF's monitoring controls over the activities of the service organisation;
 - (c) obtaining a "Type A" Controls Report on the design and implementation of the service organisation's controls; or
 - (d) obtaining a "Type B" Controls Report on the design, implementation and operating effectiveness of the service organisation's controls.
- These sources of evidence may also be utilised in obtaining evidence relating to controls for the compliance audit.
- 119 In certain circumstances, an auditor may have access to the service organisation's records, such as when the auditor is engaged to audit a number of SMSFs administered by the same service organisation or the auditor also audits the service organisation. In these circumstances, it may be possible to conduct testing of the service organisation's controls in order to rely on the operating effectiveness of those controls for the financial and compliance audits of all of the SMSFs administered to reduce substantive testing.

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- 120 Unless the SMSF is a significant client of the service organisation, it is unlikely that the SMSF's auditor can obtain access the service organisation's records. Furthermore, reliance on an SMSF's monitoring controls over the service organisation may not be appropriate, as controls at the SMSF may be limited. A Type A Controls Report is useful for obtaining an understanding of the SMSF and its environment as part of the planning work only, as it does not provide any assurance on the operating effectiveness of the service organisation's controls. The auditor may, however, seek to place reliance on the controls at the service organisation by obtaining and assessing the evidence contained in a Type B Controls Report.
- 121 A Type B Controls Report comprises:
- (a) management's description of the service organisation's control objectives and controls to meet each objective;
 - (b) a written assertion by management of the service organisation that the controls that relate to the control objectives are described accurately, are suitably designed to provide reasonable assurance of meeting the specified objectives, have been implemented and have operated effectively throughout the period;
 - (c) the service auditor's opinion about the assertions of management; and
 - (d) a description of the service auditor's tests of the controls and the results thereof.
- 122 Even if the auditor obtains sufficient appropriate audit evidence of the operating effectiveness of controls over the services outsourced, substantive procedures must still be conducted for all material balances, transactions and compliance requirements. Further guidance on substantive procedures, where the services provided by a service organisation are significant to the SMSF and relevant to the audit, are contained in paragraphs 177 to 182 of this Guidance Statement for the financial audit and paragraphs 361 to 362 for the compliance audit.

Using the Work of Another Auditor

- 123 In relying on the work of a service organisation's auditor or another auditor, under ASA 402 and ASA 600 *Using the Work of Another Auditor*, the auditor considers the professional competence of the

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service or other auditor in the context of the specific assignment and assesses whether the work of the service auditor is adequate for the SMSF auditor's purposes.

- 124 In assessing professional competence of the service auditor, the auditor may gain some comfort from the other auditor having membership of a professional accounting body or affiliation with a reputable accounting firm.
- 125 With respect to the appropriateness of the service auditor's work, the auditor needs to consider whether:
- (a) controls, balances, transactions or compliance with requirements relevant to the SMSF have been audited;
 - (b) the materiality level applied is appropriate to the SMSF's audit;
 - (c) an audit opinion, providing reasonable assurance, or a review conclusion, providing limited assurance, has been provided; and
 - (d) the service auditor's report contains any modifications which may impact the audit of the SMSF.

Using the Work of an Expert

- 126 Some SMSF audit engagements may include aspects requiring specialised knowledge and skills in the collection and evaluation of sufficient appropriate audit evidence. In these situations, the auditor may decide to use the work of an expert who has the required knowledge and skills to assist the auditor, such as property valuers, actuaries, legal professionals or other professionals. Either the auditor or the trustee may engage the required expert.
- 127 When using the work of an expert, ASA 620 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 professional competence, including expertise 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

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assumptions, method and source data used by the expert;
and

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

Using the Work of an Actuary

- 128 Actuaries are experts generally appointed by the trustees to provide actuarial valuations and certificates required by the SISA, SISR or the ITAA. The auditor applies the requirements of ASA 620 and ASAE 3100 and refers to Guidance Statement GS 005 for guidance on using the actuary's work as audit evidence, in particular the auditor:
- (a) evaluates the professional competence and objectivity of the actuary;
 - (b) evaluates the adequacy of the scope of the actuary's work for the purposes of the audit;
 - (c) evaluates the appropriateness of the actuarial certificates as audit evidence; and
 - (d) assesses whether the actuary's findings are properly reflected in the financial report.
- 129 In assessing the actuary's competence and objectivity, the auditor ordinarily relies on the actuary's membership of The Institute of Actuaries of Australia or equivalent body, including adherence to their code of professional conduct and professional standards, and the actuary's experience and reputation in the field.
- 130 The trustees are required to obtain the following actuarial reports and certificates:
- (a) Actuarial report for defined benefits funds, covering the value of assets, adequacy of assets to meet accrued benefit liabilities, recommended contribution rates and the SMSF's financial position, prepared:

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- (i) on establishment or conversion to the defined benefit fund;^{34,35}
 - (ii) triennially when in the accumulation phase;³⁶ and
 - (iii) annually when in pension mode.³⁷
- (b) Funding and solvency certificate for defined benefit funds, covering solvency and the minimum contributions required to secure the SMSF's solvency, for provision to employer-sponsors,³⁸ prepared:
 - (i) on establishment of the defined benefit fund;³⁹
 - (ii) within 3 months of the expiry of the existing certificate;⁴⁰
 - (iii) on occurrence of a notifiable event;⁴¹ and
 - (iv) under a number of other circumstances.
- (c) Actuarial certificate for accumulation funds with members in both pension and accumulation phases, where the assets are un-segregated, covering the proportion of income which is tax exempt, obtained annually.⁴²

Actuarial certificates are not required for accumulation funds paying pensions with segregated assets.

- 131 Actuarial reports are a means of reviewing a SMSF's progress in achieving it's objectives of providing the member's future benefits. The results of an actuarial valuation for a defined benefit fund are used to determine the appropriate contribution levels and to indicate

³⁴ Regulation 9.29 of the SISR.

³⁵ Since May 2004, establishment of or conversion to defined benefits funds is no longer permitted.

³⁶ Regulation 9.29 of the SISR.

³⁷ Regulation 9.29A of the SISR.

³⁸ Regulation 9.09 of the SISR.

³⁹ Regulation 9.11 of the SISR.

⁴⁰ Regulation 9.14 of the SISR.

⁴¹ Regulation 9.13 of the SISR.

⁴² Section 295-390 of the ITAA 1997.

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any surplus or deficiency in the funding of the SMSF. Employer-sponsors need to pay contributions which are not less than the certified minimum contributions in order to maintain the defined benefit fund's solvency.

Part A - Financial Audit

- 132 The ATO's approved form auditor's report Part A: *Financial report* requires the auditor to conduct the audit in accordance with Australian Auditing Standards to form an opinion regarding the fair presentation of the financial report of the SMSF for the reporting period, in accordance with stated accounting policies, which are consistent with the financial reporting requirements of the SMSF's governing rules, compliant with the SISA and SISR and are appropriate to meet the needs of members.
- 133 ASA 200 requires the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework. As SMSFs generally prepare special purpose financial reports they are not required to formally adopt Australian Accounting Standards and the trustees determine the applicable financial reporting framework which they will apply to the SMSF's financial report.⁴³ The basis for preparation of the report is disclosed in the accounting policy notes in the financial report.

Financial Reports

- 134 The type of financial report which a SMSF prepares depends on whether it is an accumulation or a defined benefit fund.
- 135 An accumulation fund, or defined contribution fund,⁴⁴ is a fund which is not a defined benefits fund.⁴⁵ The benefits payable to members on satisfying a condition of release in an accumulation fund are determined by the accumulated contributions made to the fund and the investment income thereon, as well as any insurance benefit available, less any expenses or other deductions.
- 136 A defined benefit fund is a fund with at least one defined benefit member and some or all of the contributions to which are not paid into the fund, or accumulated, in respect of any individual member but are paid into the fund, or accumulated, in the form of an

⁴³ If a SMSF is a reporting entity, the SMSF prepares general purpose financial reports and adheres to the Australian Accounting Standards in the preparation of that report.

⁴⁴ Term used in Australian Accounting Standard AAS 25 *Financial Reporting of Superannuation Plans*.

⁴⁵ Definition from regulation 1.03(1) of the SISR.

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aggregate amount.⁴⁶ A defined benefit member is a member entitled to benefits determined by reference to a formula specified in the trust deed or governing rules, which is generally based on the member's salary at a particular date or the member's salary averaged over a period before retirement.

- 137 The financial report of a SMSF comprises, either:
- (a) for a SMSF that is an accumulation fund, or a defined benefit fund with an actuarial review at the reporting date⁴⁷:
 - (i) a statement of financial position; and
 - (ii) an operating statement; or
 - (b) for a SMSF that is a defined benefit fund⁴⁸:
 - (i) a statement of net assets; and
 - (ii) a statement of changes in net assets.

These are special purpose financial reports for the purposes of the Australian Auditing Standards. 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.⁴⁹ This Guidance Statement does not deal with the audit of these funds.

- 138 The key differences in the two types of financial reports are that:
- (a) A statement of financial position includes the liability for accrued benefits whereas a statement of net assets refers to the liability for accrued benefits only in a note to the financial statements. A statement of net assets is prepared where the defined benefit fund does not have an actuarial valuation of the liability for accrued benefits at the reporting date and so it cannot be included on the face of the statement.

⁴⁶ Definition from regulation 1.03(1) of the SISR.

⁴⁷ Section 35B of the SISA.

⁴⁸ Regulation 8.01 of the SISR.

⁴⁹ Regulations 8.02 and 8.03 of the SISR.

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- (b) A statement of changes in net assets, in addition to including all of the items in an operating statement, shows the opening and closing balances of net assets available to pay benefits and includes benefits paid in order to reconcile those balances.
- 139 Although the presentation differs between the two types of reports that a SMSF may prepare, the same account categories will require auditing, including:
- Assets:
 - Cash and cash equivalents.
 - Investments.
 - Receivables.
 - Prepayments.
 - Liabilities:
 - Tax liabilities (current and deferred).
 - Accounts payable.
 - Borrowings.
 - Accrued benefits (disclosed in the notes to the financial statements for defined benefit funds).
 - Vested benefits (disclosed in the notes to the financial statements).
 - Reserves.
 - Revenue:
 - Investment revenue, including changes in net market values.
 - Proceeds from term insurance policies.
 - Contributions and transfers in.

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- Expenses:
 - General administration expenses.
 - Tax expenses.
 - Benefits paid.

Guidance on auditing each of these balances and transactions is provided in paragraphs 153 to 247 and illustrative financial audit procedures are also provided in Appendix 5 of this Guidance Statement.

Assertions and Audit Evidence

- 140 In representing that the financial report gives a fair presentation of the SMSF's position, results and disclosure during the reporting period and is prepared in accordance with the applicable financial reporting framework, the trustees make assertions implicitly or explicitly (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures.
- 141 In accordance with ASA 500, the auditor uses assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures.
- 142 Assertions used by the auditor fall into the following categories:
- (a) Assertions about classes of transactions and events reflected in the SMSF's operating statement or statement of changes in net assets for the period under audit:
 - (i) *Occurrence* - transactions and events that have been recorded have occurred and relate to the SMSF.
 - (ii) *Completeness* - all transactions and events that should have been recorded have been recorded.
 - (iii) *Accuracy* - amounts and other data relating to recorded transactions and events have been recorded appropriately.

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- (iv) *Cut-off* - transactions and events have been recorded in the correct accounting period.
 - (v) *Classification* - transactions and events have been recorded in the proper accounts.
- (b) Assertions about SMSF account balances reflected in the SMSF's statement of financial position or statement of net assets at the period end:
 - (i) *Existence* - assets, liabilities, and member entitlements exist.
 - (ii) *Rights and obligations (ownership)* - the SMSF holds or controls the rights to assets, either directly or beneficially, and liabilities are the obligations of the SMSF.
 - (iii) *Completeness* - all assets, liabilities and member entitlements that should have been recorded have been recorded.
 - (iv) *Valuation and allocation* - assets, liabilities and member entitlements are included in the financial report at appropriate amounts in accordance with the policies adopted and any resulting valuation or allocation adjustments are appropriately recorded.
- (c) Assertions about presentation and disclosure within the SMSFs special purpose financial reports:
 - (i) *Occurrence, rights and obligations* - disclosed events, transactions, and other matters have occurred and pertain to the SMSF.
 - (ii) *Completeness* - all disclosures that should have been included in the financial report have been included.
 - (iii) *Classification and understandability* - financial information is presented and described appropriately, and disclosures are expressed clearly.

- (iv) *Accuracy and valuation* - financial and other information is disclosed fairly and at appropriate amounts in accordance with the stated policies.

Materiality

- 143 ASA 320 requires the auditor to make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan risk assessment procedures, further audit procedures, selection strategies and other audit procedures for the financial audit. Ordinarily, a quantitative materiality level is calculated by applying a percentage, based on the auditor's professional judgement, to the selected benchmark or benchmarks, which may include:
- Total gross assets.
 - Total gross income.
 - Total member entitlements.
- 144 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 balances, to determine the nature, timing and extent of audit procedures for the financial audit.
- 145 In assessing the materiality of any misstatements identified during the audit and their impact on the auditor's report, the auditor considers both quantitative and qualitative factors. Qualitative factors which the auditor considers include:
- The significance of a misstatement to the SMSF.
 - The pervasiveness of a misstatement.
 - The effect of misstatement on the financial report as a whole.
- 146 ASA 320 also requires the auditor to consider the possibility that the cumulative result of uncorrected misstatements below the materiality level could have a material effect on the financial report.

Opening Balances

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

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- (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; and
 - (c) appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.
- 148 When the prior period's financial report was audited by another auditor, the current auditor may be able to obtain sufficient audit evidence by reviewing the predecessor auditor's working papers. In these circumstances, under ASA 600, the current auditor considers the professional competence and independence of the predecessor auditor. If the prior period's auditor's report was modified, under ASA 701, the auditor pays particular attention in the current period to the matter which resulted in the prior period modification.
- 149 Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the requirements of the Code of Ethics.
- 150 If the prior period's financial report was not audited or when the auditor is not able to obtain sufficient appropriate audit evidence by examining the work of the previous auditor, the auditor undertakes further audit procedures to obtain sufficient appropriate audit evidence to ascertain whether the opening balances are stated fairly.
- 151 Ordinarily, some audit evidence may be obtained as part of the current period's audit procedures for the opening balances of current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other smaller items may provide sufficient appropriate audit evidence. For investments and material balances, the auditor examines the accounting records and other information underlying the investments which may contain the opening balances of such investments. In certain cases, the auditor may be able to obtain confirmation of opening balances with third parties such as share registries or fund managers. When the auditor cannot obtain this information, the auditor may need to carry out additional audit procedures to verify the opening balances.

- 152 If audit procedures do not result in sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's report is modified. Further guidance on modifications to the auditor's report is provided in paragraphs 265 to 270.

Cash and Cash Equivalents

- 153 Cash and cash equivalents include bank accounts, cash management trusts and other cash transactional facilities held with banks, fund managers, credit unions and other approved financial or deposit taking institutions. These accounts provide either a paper based record or electronic record of transactions and may have cheque, direct debit or internet banking facilities.
- 154 The audit assertions for auditing a SMSF's cash and cash equivalents are:
- *Existence* – obtaining evidence that the cash exists.
 - *Rights and obligations (ownership)* – obtaining evidence that the cash is owned directly or beneficially by the SMSF.
 - *Completeness* – obtaining evidence that all cash owned by the SMSF is recorded.
 - *Valuation and allocation* – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.
- 155 Cash and cash equivalents are a SMSF's most liquid assets and so may carry a high fraud risk. The auditor remains alert to fraud and the risk of fraud with respect to the SMSF's bank accounts. The auditor makes enquires regarding who has access to the account via internet or phone banking and access to cheque books. The auditor assesses the internal controls surrounding the authorisation of payments and receipts to ascertain whether the cash of the SMSF are safeguarded adequately.
- 156 If the banking operations are significant to the audit, the auditor sends bank confirmation requests to the SMSF's banks. A bank confirmation is a request to a bank to provide independent confirmation for audit purposes of such information as the SMSF's account balances, securities, treasury management instruments, documents and other related information held by the bank on behalf

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of the SMSF. The confirmation will also seek to identify any deliberate or inadvertent borrowings with the bank.

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

Investments

- 158 The investments of a SMSF may include:

- Listed securities.
- Fixed rate securities such as government, semi-government or corporate bonds, loans (secured or unsecured) and mortgages.
- Variable rate and discount securities such as bank bills, promissory notes or floating rate notes.
- Hybrid securities which have both interest and equity components, such as convertible notes or converting preference shares.
- Managed products such as units in managed funds, managed investment schemes, PSTs and insurance policies.
- Unlisted investments including shares and units in widely held entities.
- Unlisted investments including shares and units in closely held or related entities.
- Derivatives such as futures and options.
- Instalment warrants.
- Real property.

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- Other assets such as artwork, antiques, wine, vehicles, boats, equipment, fishing licences, timber plantations and other agricultural investments.
- 159 Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.
- 160 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 all investments owned by the SMSF are recorded in the accounts.
 - *Valuation, allocation and accuracy* – obtaining evidence that investments are valued in accordance with the accounting policies adopted, allocated to the correct account and disclosed fairly in accordance with the stated policies.
- 161 Audit risks to be considered in relation to auditing investments may include, but are not limited to:
- Overstatement of investment values, including investment values not being adjusted for dividends or distributions which are included as income.
 - Investments not beneficially owned by the SMSF.
- 162 The audit procedures relating to investments will vary depending on the administration and management arrangements adopted by the trustees, the type of investments held and the trustee structure that holds the assets. The auditor exercises professional judgement in determining the appropriate auditing procedures.

Existence and Ownership

- 163 In auditing existence of the SMSF's assets, the auditor may either physically inspect the assets or examine documentation supporting their existence. The documentation may also verify ownership, however, if assets are registered in the name of the trustees, corporate

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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 a declaration of trust or equivalent document.

Completeness

- 164 The auditor ensures that all investments of the SMSF have been recorded at the correct amounts and in the correct period. The auditor reviews supporting documentation to ensure that no asset of the SMSF has been excluded. This may extend to obtaining investment schedules from previous years and examining them for changes and movements and reconciling the schedules with purchase and sale transactions for the current period to ensure that all movements in investments have been recorded. The auditor may also obtain representations from the trustees that they have provided a full disclosure of all assets of the SMSF and made available all records relating to those assets.

Valuation of Assets

- 165 As the SMSF's financial report is generally a special purpose financial report, the trustees choose the financial reporting framework under which the SMSF reports and exercises their discretion when determining the most appropriate valuation methods to be applied to each investment of the SMSF.⁵⁰ 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 545, 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

⁵⁰ If the SMSF is a reporting entity it is required to prepare general purpose financial reports, in which case the auditor assesses that the accounting policies applied are consistent with the Australian Accounting Standards, in particular AAS 25 *Financial Reporting by Superannuation Plans*, which requires that assets be measured at *net market value*, derived after deducting the costs of disposal from market value. AAS 25 is under review at the time of publication of this Guidance Statement. Any subsequent changes made to AAS 25 or its replacement should be considered, if relevant, in planning the auditor's procedures with respect to auditing the valuation of assets in general purpose financial reports.

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is appropriate in the circumstances and that the method adopted has been applied consistently.

166 Multiple valuation methods exist, including:

- Market value.
- Fair market value.
- Independent valuation by an expert.
- Net tangible asset backing.
- Latest sale prices.
- Cost.
- Present value method.
- Using valuations from similar investments.
- Sworn valuations.
- Application of indices or benchmarks.

167 The auditor obtains an understanding of the trustees' rationale for selecting the valuation method and exercises professional judgement in assessing whether the method employed is appropriate given the nature of the asset and the financial and investment markets in which the SMSF operates.

168 The ATO's preferred valuation method, as outlined in its Superannuation Circular 2003/01, is that SMSFs' assets are carried at *market value*⁵¹ and valued annually at the SMSF's reporting date. Nevertheless, the trustee may value the SMSF's investments less frequently, providing this is consistent with the accounting policies disclosed. Market value is defined in the SISA.⁵²

⁵¹ ATO Superannuation Circular 2003/1 *Self Managed Superannuation Funds* states that SMSFs should use market values for all valuation purposes. This includes valuations for determining the purchase price of a pension and the use of market value accounting for all financial reports.

⁵² Subsection 10(1) of the SISA.

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169 It is not the role of the auditor to value the assets. The auditor assesses the valuation method and evaluates the valuation for accuracy and reasonableness. The auditor assesses the risks of material misstatement of the asset values and designs and performs audit procedures in response to the assessed risks. For example, the valuation of business real property operated by the trustees is likely to be high risk as the valuation method may be very subjective, where as the valuation of listed securities will generally be low risk as publicly quoted prices are available. The nature, timing and extent of audit procedures will vary significantly as a result of the assessed risks and the complexity of the valuation method adopted. Substantive procedures may include:

- (a) testing the trustees' significant assumptions, the valuation model and the underlying data, such as future cash flows and discount rates used in valuing business real property;
- (b) developing independent fair value estimates to corroborate the appropriateness of the valuation, such as obtaining an agent's property valuation for comparison to the trustees' valuation; or
- (c) considering the effect of subsequent events, such as the subsequent sale of an asset, on the valuation and disclosures.

When auditing the valuation of assets, the auditor refers to ASA 545 for requirements and detailed guidance.

170 SMSFs may invest directly in unit trusts, listed securities, PSTs or other investment products for which market prices are published and readily available. If market value is employed, the auditor verifies 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.

171 Non-monetary items, such as property and collectibles, require alternative methods to arrive at an estimate that approximates market value. Property valuations may be based on sworn valuations by appropriately qualified valuers, market appraisals by real estate agents or the trustees' assessment of market value. Collectibles may be valued by the trustee or an expert valuer.

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- 172 The accounting treatment which may be applied to investments in instalment warrants may be either net asset value or separate balances for the gross asset and the liability.
- 173 Foreign assets are stated in Australian dollars and valued in a manner consistent with Australian assets.
- 174 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.
- 175 To protect the value of its 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 and beneficiary of the policy;
 - (c) the premium is paid by the SMSF; and
 - (d) the cover is effected and current.
- 176 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.

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Service Organisations

- 177 Whilst the auditor of a SMSF may be able to rely on a Type B Controls Report⁵³ from the service organisation as audit evidence of the operating effectiveness of controls over the services outsourced, the auditor must still conduct substantive procedures for all material balances and transactions under ASA 330 to support their financial audit opinion. It may be impractical or impossible to gain access to the service organisation's records to conduct substantive testing. In which case, the auditor may rely on the Type B Controls Report in conjunction with:
- Analytical review of the balances and transactions of the SMSF reported by the service organisation, such as comparison of investment returns with market indices or comparison of expected contribution rates and benefit payments with changes in assets managed by the service organisation.
 - Reconciliation of balances and transactions reported by the service provider with records maintained by the SMSF.
 - Confirmation of balances or transactions recorded on behalf of the SMSF from the service organisation.
 - A special purpose auditor's report on a statement of the SMSF's balances and transactions or on specified assertions in relation to such balances and transactions provided by the service organisation under GS 007.⁵⁴
- 178 The nature of the audit procedures required to obtain sufficient appropriate audit evidence regarding a SMSF's investments which are managed by or in the custody of a service organisation will depend on the extent to which the records of the SMSF are maintained by the service organisation.
- 179 By comparison, investments in listed securities, units or products for which prices are readily or publicly available, such as managed funds, Pooled Superannuation Trusts (PSTs) and listed property trusts, registered in the name of the trustee on behalf of the SMSF,

⁵³ See paragraph 121 of this Guidance Statement for a description of a Type B Controls Report.

⁵⁴ Or under AGS 1026 for periods commencing prior to 1 July 2008.

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for which the SMSF maintains its own accounting records, the auditor is ordinarily able to confirm the number of units held in the end of period statements and taxation summaries or directly with the registry, coupled with substantive testing of the SMSF's records for investments and redemptions. Valuation may be tested against published unit prices using the number of units held.

- 180 For investments for which recording of material balances or transactions is controlled by the service organisation but accounting records are still maintained by the SMSF and the SMSF has access to the source documentation, such as when assets are held in custody, the end of period statements and taxation summaries may be insufficient evidence alone but may be coupled with evidence of the operating effectiveness of controls within the service organisation as evidenced in a Type B Controls Report, confirmation of balances with the service organisation and analytical review of the SMSF's investment activity.
- 181 For a stand alone investment mandate where the service organisation maintains the SMSF's accounting records, including source documentation, makes investment decisions based on the mandate and holds the investments on behalf of the SMSF, the SMSF may maintain only limited independent accounting records, source documentation or banking records, in which case the SMSF relies on the service organisation's reports as a basis for preparation of their financial report. Audit evidence in these circumstances may include a Type B Controls Report from the service organisation and substantive testing of balances and transactions by either visiting the service organisation, obtaining a special purpose auditor's report from the service organisation on the balances and transactions of the SMSF or conducting testing at the SMSF. Testing at the SMSF may include: valuation using independent sources, confirmation of contributions with employers, verification of benefit payments against members' records, if available, and verification of dividend and trust distributions against independent sources.
- 182 It may be impossible or impractical to obtain sufficient appropriate audit evidence with respect material balances or transactions of the SMSF controlled by the 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.

Receivables and Prepayments

- 183 Where the SMSF accounts on an accruals basis, receivables may include contributions, interest or trust distributions receivable and current tax assets. Receivables are tested primarily for existence and valuation by confirming the receipt in the subsequent period.
- 184 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.
- 185 Prepayments are tested against cash payments and particular attention paid to transactions with related parties to ensure they relate to a genuine expense.

Liabilities

- 186 Liabilities of a SMSF, other than accrued benefits which are discussed separately, may include:
- Benefits payable, including benefits arising from insurance claims.
 - Bank overdrafts, other borrowings and related interest payable.
 - Goods and Services Tax (GST) payable, if the SMSF is registered for GST.
 - Income tax liabilities, current and deferred.
 - Accruals for accounting and audit fees.
 - Liabilities relating to instalment warrants, where the accounting treatment is on a gross basis.
 - Any other accrued expense the trustees have provided for or incurred.

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

- 187 The audit assertions with respect to a SMSF's liabilities are:

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- *Existence* – the liabilities exist.
 - *Rights and obligations (ownership)* – the liabilities are obligations of the SMSF.
 - *Completeness* – all liabilities of the SMSF have been recorded.
 - *Valuation and allocation* – liabilities are recorded at appropriate amounts and allocated to the appropriate account.
- 188 Generally, SMSFs are not allowed to borrow under SISA. Permitted exceptions are temporary borrowings which are required for the payment of member benefits, payment of the superannuation contributions surcharge,⁵⁵ settlement of securities transactions or borrowings under instalment warrant arrangements.
- 189 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.
- 190 Normally, the auditor performs a search for unrecorded liabilities by examining brokers' statements for outstanding balances, bank confirmation letters for borrowings or evidence of security provided, banking records for payments after period end and by reviewing the financial records for expenses that were paid in previous years, but billed infrequently or annually such as insurance or accountancy fees, which may not have been included in the current period's accruals. The auditor may seek representations from the trustee that all liabilities of the SMSF have been disclosed and recorded.

⁵⁵ The superannuation contributions surcharge was abolished from 1 July 2005, however there may be circumstances where the surcharge may still be levied on contributions relating to periods prior to this date.

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

Accrued Benefits

- 192 The liability for accrued benefits, or member entitlements, is the present obligation to pay benefits to members or beneficiaries in the future.
- 193 Accrued benefits of a SMSF may arise from:
- Accumulation entitlements where the member bears the investment risk.
 - Defined benefit entitlements where a party, other than the member, bears the investment risk. The other party is generally an employer before the beneficiary ceases employment or the SMSF post cessation of the member's employment.
 - Insurance claims paid or payable to the SMSF owing to members.
- 194 The audit assertions with respect to a SMSF's accrued benefits are:
- *Existence* – the accrued benefits are entitlements of members.
 - *Rights and obligations (ownership)* – the accrued benefits are obligations of the SMSF.
 - *Completeness* – all accrued benefits of each member of the SMSF have been recorded.
 - *Valuation and allocation* – accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.
- 195 Audit risks for accrued benefits include:
- Contributions not being allocated correctly to members.

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- Income not being allocated correctly or appropriately to individual members.
 - Benefit payments or expenses being allocated incorrectly to member's balances.
 - Member balances and components not being carried forward correctly from one period to another.
- 196 Accrued benefits are calculated differently for accumulation and defined benefit funds. For accumulation funds, benefits are based on the performance of the SMSF's investments and do not exceed the assets available in the SMSF. Accrued benefits in an accumulation fund are calculated as the difference between the carrying value of the assets and the carrying value of tax and sundry liabilities as at the reporting period. Any liability for accrued benefits is included in the statement of financial position for an accumulation fund.
- 197 The defined benefits component of a defined benefit fund is payable by reference to a formula based on some combination of each member's salary, years of service, contribution rate and/or some other measure such as life expectancy or other actuarial derived amount. Accrued benefits in a defined benefit fund are based on actuarial valuations which must be conducted:
- (a) triennially when in accumulation mode;⁵⁶ or
 - (b) annually when in pension mode.⁵⁷
- 198 Actuarial valuations are based on the application of a market-based risk-adjusted discount rate and relevant actuarial assumptions to expected future pension payments. For defined benefit funds with an actuarial valuation at period end, a liability for accrued benefits is shown on the face of the statement of financial position. For a defined benefit fund which does not have an actuarial valuation at period end, a statement of net assets is prepared and the liability for accrued benefits is disclosed as a note to the financial statements as at the last actuarial valuation date.

Vested Benefits

⁵⁶ Regulation 9.29 of the SISR.

⁵⁷ Regulation 9.29A of the SISR.

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- 199 Vested benefits are those benefits to which the member is currently entitled irrespective of the member's continued membership of the SMSF, on-going employment with a particular employer or maintenance of other conditions. Although vested benefits are an unconditional benefit of the member within the SMSF, those benefits can be accessed only upon satisfying an appropriate condition of release, such as retirement, death, rollover, reaching age 65 or reaching at least age 55 and accessing a transition to retirement income stream. Usually vested benefits are disclosed in the notes to the financial statements.
- 200 Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member financed concessional and non-concessional contributions, mandated contributions (compulsory employer contributions) such as Superannuation Guarantee (SG) contributions or superannuation payments made pursuant to an Award or other employment agreement, amounts rolled over or transferred in as minimum benefits and the earnings thereon. Some older SMSFs may have a vesting scale which provides for certain contributions and earnings to progressively vest. Minimum benefits must be maintained in the SMSF until they are cashed, rolled over or transferred in accordance with the SISA and SISR benefit payment rules.⁵⁸
- 201 Audit procedures to test for vesting of minimum benefits include examining the trust deed to ensure that the trust deed fully vests the contributions in the member and testing member and employer contributions for the period to inclusion in members' accounts. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefits are not being reduced.
- 202 In circumstances where the SMSF is converting from a defined benefit fund to an accumulation fund, the auditor examines whether the conversion will adversely affect members' rights to minimum benefits. Ordinarily, the auditor reviews the actuarial advice issued in relation to the conversion and the resultant figures derived.

⁵⁸ Refer regulation 5.08 SISR.

Reserves

- 203 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 trust deed. Typically reserves are created from excess investment returns or in accordance with actuarial requirements.
- 204 Types of reserves permitted for SMSFs may include:
- Investment.
 - Solvency.
 - Miscellaneous.
- 205 Investment reserves are used to smooth returns and assist with meeting payment obligations for some defined benefit pensions.
- 206 Solvency reserves provide an asset/income buffer to assist in guaranteeing payments of defined benefit pensions and are determined actuarially.
- 207 Generally, miscellaneous reserves are created by the death of the last defined benefit pensioner within the SMSF with the residual sums being transferred to the miscellaneous reserve. They can also be created intentionally for other purposes.
- 208 Contribution reserves could be established prior to mid 2004, but the establishment of new contributions reserves is no longer permissible as contributions received by a SMSF must be allocated within 28 days of receipt. Some long established SMSFs may still have contribution reserves which can be retained but cannot be increased.
- 209 Anti-detriment payment reserves may be established to pay an additional benefit upon death, equivalent to the tax already paid on contributions for the member. Various methods may be used to calculate the exact amount of the anti-detriment payment and auditors should refer to the relevant sections of the ITAA 1997. The reserve may be funded from excess investment returns or allocated from miscellaneous reserves and needs to be established prior to death.
- 210 Audit considerations for reserves include whether:

- The trust deed permits the making of reserves.
- The assets of the particular reserve are segregated appropriately from the rest of the SMSF's assets.
- Amounts transferred in or out of the reserve are appropriate.
- Actuarial recommendations are met.

Investment and Other Revenue

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

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

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

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

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- 213 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 net market value due to under or overstatement of market valuation.

Contributions and Transfers In

- 214 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:
- Employer contributions, including SG, award and salary sacrifice contributions.
 - Member contributions, both concessional and non-concessional.
 - Spouse contributions.
 - Child contributions.
 - Rollovers from other complying funds.
 - Small business rollovers.
 - Amounts transferred from a foreign fund.
 - Government co-contributions.
 - Transfers from the Superannuation Holding Accounts Reserve (SHAR) held by the ATO.

Contributions may be made in cash or *in-specie* (by transferring an asset) or a combination of both. However, the trust deed must permit the SMSF to accept contributions that are made *in-specie*.

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- 215 The objectives for auditing contributions received by a SMSF are:
- *Occurrence* – contributions and transfers in recorded by the SMSF are real and occurred.
 - *Completeness* – all contributions and transfers in receivable from or on behalf of members have been received and recorded.
 - *Accuracy* – all contributions and transfers in have been recorded accurately.
 - *Cut-off* – all contributions and transfers in have been recorded in the correct period.
 - *Classification* – all contributions and transfers in have been allocated to the correct member and correctly classified as concessional or non-concessional.
- 216 Audit risks to be considered in relation to contributions and transfers in may include, but are not limited to:
- Incorrect classification and allocation of concessional and non-concessional contributions.
 - Incorrect tax treatment of contributions.
 - Incorrect cut-off for contributions resulting in failure to recognise that contribution caps have been exceeded.
 - Incorrect allocation of the components of transfers in.
 - Acceptance of contributions in excess of the fund contributions cap.⁵⁹
 - Understatement of market values for *in-specie* contributions to avoid exceeding the contributions caps.
 - Overstatement of market values for *in-specie* contributions either to provide early access to benefits or to disguise loans to members.

⁵⁹ Contributions caps are discussed in paragraph 228 of this Guidance Statement.

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- 217 Where the auditor also audits the employer-sponsor the auditor may be able to use evidence from testing of payments and payroll deductions at the employer to verify contributions received by the SMSF. Alternatively, confirmation may be sought from the employers.

Expenses

- 218 The typical expenses of a SMSF may include:
- Administration fees.
 - Audit fees.
 - Actuarial advice.
 - Legal advice.
 - Valuation fees.
 - Accounting and tax agent fees.
 - Superannuation supervisory levy.
 - Investment management fees and financial planning advice.
 - Bank fees.
 - Property fees – if the SMSF invests in property.
 - Insurance premiums paid.
 - Taxation.
- 219 The audit objectives with respect to a SMSF's expenses are:
- *Occurrence* – all expenses recorded by the SMSF were incurred.
 - *Completeness* – all expenses incurred by the SMSF have been recorded.
 - *Accuracy* – all expenses have been recorded accurately.

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- *Cut-off* – all expenses have been recorded in the correct period.
 - *Classification* – all expenses have been allocated to the proper accounts or member to which they relate.
- 220 Audit risks to be considered in relation to auditing expenses may include:
- Personal expenses of the members or trustees are recorded as expenses of the SMSF.
 - Expenses of the SMSF paid by a member or an employer are not recorded as concessional or non-concessional contributions.
 - Incorrect tax treatment of an expense.
- 221 Ordinarily the auditor reviews any payments made to individual trustees or corporate trustees to validate that the payment was *bona fide* and not an early benefit or a payment for services to the SMSF, which are prohibited.

Tax Expenses and Benefits

- 222 The main areas of focus for an auditor with respect to tax are the tax calculation and allocation of any tax expense or benefit to the members' accounts. The taxation legislation is amended periodically and interpretation of that legislation by the ATO and the courts may change from time to time, consequently the guidance in this section may become outdated over time and it is the responsibility of the auditor to ensure that they remain up-to-date with the taxation requirements affecting SMSFs. The audit objectives with respect to a SMSF's tax expenses and benefits include:
- *Occurrence* – Deductions were incurred and imputation credits, carried forward losses and any other offsets are attributable to the SMSF.
 - *Completeness* – All assessable income, including capital gains, received by the SMSF has been declared.
 - *Accuracy* – Assessable income, including capital gains, allowable deductions, rebates, offsets and eligible credits

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attributable to the SMSF are calculated and recorded accurately.

- *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.

223 Income tax is payable on investment earnings (net of expenses) and capital gains, with full imputation credits for dividends received from Australian companies and credits for dividend and withholding tax on foreign income to the extent of Australian tax payable on the foreign sourced income. Income tax is also payable on employer contributions and on member contributions where the member has notified the trustees of an intention to claim a personal tax deduction (concessional contributions). Deductions are available for certain payments and expenses.

224 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 this accounting standard upon the SMSF. Ordinarily, the auditor considers whether the recognition of any current or deferred tax liabilities or tax assets is appropriate given likelihood of payment of the liabilities or recovery of the assets based on the age of the members and the circumstances of the SMSF.

Ordinary Income

225 The ordinary income of the SMSF for tax purposes includes:

- Investment earnings, such as interest, dividends, rents, trust distributions, and realised capital gains.
- Concessional contributions received during the year.
- Insurance premium rebates or refunds.

226 Ordinary income does not include:

- Non-concessional contributions.

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

227 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.

Contributions

- 228 SMSFs are prohibited from accepting fund-capped contributions,⁶⁰ in a financial year in excess of the caps specified in the SISR,⁶¹ and must return any amount which is inconsistent with these caps within 30 days of receipt.⁶² The auditor makes enquiries to satisfy themselves that excess contributions are returned and excluded from the tax calculations.
- 229 The auditor verifies contributions against the documentation from the member or member's employer, for correct allocation to members' accounts and appropriate classification as concessional or non-concessional, so that the correct tax treatment is applied.
- 230 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 able to exclude all or part of the contribution from the non-concessional contributions cap. In these circumstances, the auditor examines the documentation surrounding the contribution and verifies that any small business capital gains tax (CGT) concessional contributions have been calculated appropriately and classified correctly.

⁶⁰ Fund-capped contributions are defined in regulation 7.04(7) of the SISR.

⁶¹ Regulation 7.04(3) of the SISR.

⁶² The ATO's Interpretative Decision, ATO ID 2007/225, states that the trustee is only expected to consider whether contributions individually exceed the contribution caps and the trustee does not need to aggregate contributions by a member for the year in determining whether excess contributions should be returned.

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Non-arm's Length Income

- 231 Non-arm's length⁶³ income of a SMSF, which includes private company dividends (unless arm's length), income from non-arm's length transactions and certain trust distributions, is not taxed concessionally. The auditor checks that any non-arm's length income has been classified correctly.

Franked Dividends

- 232 The auditor checks that any imputation credits attached to a franked dividend to which the SMSF is entitled have been recorded and that the respective franking credit of each dividend is accounted for correctly and that these have been included in the tax calculation appropriately. This extends to checking that the SMSF has held the security for the requisite period to qualify for the franking credit.

Capital Gains Tax

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

Goods and Service Tax

- 234 If the SMSF is registered for GST, generally due to owning business real property, and has taxed supplies (income) and input taxed supplies (expenses) the auditor reviews the GST calculation and business activity statements (BAS) to ensure that the correct amounts are being disclosed and the SMSF is meeting its reporting and payment obligations with respect to GST. Input tax credits are claimable on supplies relating to commercial property, on other supplies at the reduced rate of 75% and not claimable on certain expenses, such as tax and audit fees.

⁶³ Prior to 1 July 2007, non-arm's length income was special income under the ITAA. Section 273 of the ITAA (1936) was repealed on 1 July 2007 and replaced by section 295-550 of the ITAA (1997). Refer to Public Tax Ruling TR2006/7 for further information.

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Deductions

- 235 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.⁶⁴ The auditor tests the deductions claimed to verify their occurrence, deductibility and that they were incurred by the SMSF and were not personal in nature, or if they were shared, the correct proportion of the expense has been claimed by the SMSF. In general, the following expenses are deductible – administration fees, actuarial costs, accountancy and audit fees, investment management fees and custody fees. Other expenses such as capital allowances (depreciation) may be deductible depending on the circumstances of the SMSF. Depending on the type of insurance policy, the insurance premium may also be deductible, in part or in full. The auditor may also check that capital items have been correctly treated, as items of a strictly capital nature may not be tax deductible.
- 236 The auditor verifies that expenses are not claimed if they relate to exempt pension income.

Actuarial Reports for Un-segregated Assets

- 237 Where a fund has un-segregated assets and at least one member in accumulation mode and another in pension mode during 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 derive the exempt pension income for the SMSF.

⁶⁴ The ATO has issued a number of publications which provide further guidance on the deductibility of expenses incurred by the SMSF. They include Taxation Ruling TR 93/17 *Income tax: income tax deductions available to superannuation funds*, and its addendum TR 93/17A, which provides general guidance, Miscellaneous Tax Ruling MT 2005/1, which provides specific guidance on expenses paid by members or employers, and Tax Ruling IT 2672, which discusses the deductibility of amending a deed.

Benefits Paid

- 238 Generally, benefits paid by a SMSF are triggered by the member's retirement, death, ill-health,⁶⁵ termination of employment, request to rollover their benefit to another complying superannuation fund, commencement of a transition to retirement income stream (upon turning 55) or commencement of an income stream upon the member retiring or turning 65.⁶⁶ In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.⁶⁷
- 239 SMSFs may pay benefits by way of a lump sum (in cash or *in specie*), pension or insurance benefit.⁶⁸ An accumulation fund may pay the following types of pensions:
- (a) account based income streams, including transition to retirement income streams; and
 - (b) existing allocated pensions and market linked income streams (formerly known as market linked pensions).
- 240 New defined benefit pensions have been prohibited since 2004, however existing defined benefit funds may continue to pay the following types of pensions:
- (a) flexi pensions (also known as commutable life-time pensions);
 - (b) life-time income streams; or
 - (c) complying fixed term income streams.

⁶⁵ Ill-health may include total and permanent disability, total and temporary disability or trauma, depending on the insurance policies held on behalf of members.

⁶⁶ Other circumstances may also trigger a condition of release, such as financial hardship.

⁶⁷ 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 245 to 247 for further guidance on benefit splitting.

⁶⁸ 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.

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- 241 Benefits may be paid to the member, the member's spouse, the member's financial dependant, the member's estate or another superannuation fund depending on the circumstances.
- 242 The relevant assertions with respect to benefits paid are:
- *Occurrence* – all benefits recorded by the SMSF as paid have been incurred and paid.
 - *Completeness* – all benefits paid or payable, if appropriate, by the SMSF have been recorded.
 - *Accuracy* – benefits paid by the SMSF have been calculated accurately and the correct amount of Pay-As-You-Go (PAYG) withholding tax, if applicable, has been deducted.
 - *Cut-off* – all benefits paid by the SMSF have been recorded in the correct period.
 - *Classification* – all benefits paid by the SMSF have been recorded in the proper accounts and are allocated to the appropriate member's account.
- 243 Audit risks to be considered in relation to auditing benefits may include but are not limited to:
- Payment of a benefit to which the member or beneficiary are not entitled, providing early access to benefits.
 - Incorrect calculation of a benefit payment, including any PAYG withholding tax.
 - Payment of a benefit to an incorrect member or beneficiary.
- 244 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 trust deeds may permit establishment under a discretionary power in the deed. The auditor, in the case of death of a pensioner with a reversionary benefit, checks that the pension is being paid to the nominated reversionary beneficiary and that the benefit has not been transferred to reserves or paid out as a lump sum.

Divorce and Splitting of Benefits

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- 245 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.⁶⁹
 - (e) Notice by a trustee of information regarding an interest subject to a payment split.⁷⁰
 - (f) Payment split notice by a trustee to both member and non-member.⁷¹
 - (g) One of the following notices by the non-member spouse to the trustees to:
 - (i) Create a new interest;⁷²
 - (ii) Rollover or transfer benefits;⁷³
 - (iii) Pay a lump sum where non-member has met a condition for release.⁷⁴
- 246 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

⁶⁹ Notice under regulation 72 of the Family Law (Superannuation) Regulations 2001.

⁷⁰ Notice under regulation 2.36C of the SISR.

⁷¹ Notice under regulation 7A.03 of the SISR.

⁷² Notice under regulation 7A.03C or 7A.05 of the SISR.

⁷³ Notice under regulation 7A.03D or 7A.06 of the SISR.

⁷⁴ Notice under regulations 7A.03E or 7A.07 of the SISR.

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member SMSF, the exiting member may take part of the other party's interest as well as their own. The auditor then treats the exit as per a normal member rollover or cashing out of a benefit. The auditor is careful to ensure that the capital gains issues are addressed, and that the tax components and preservation status of the superannuation payments are maintained.

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

Other Audit Considerations

Going Concern

- 248 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.⁷⁵ In assessing going concern, the auditor considers the period of approximately 12 months following the date of the current auditor's report, being the period up until the expected date of the auditor's report for the next annual reporting period.
- 249 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 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 130,⁷⁶ the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

⁷⁵ ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

⁷⁶ Reporting an unsatisfactory financial position is addressed in the compliance audit, paragraphs 357 to 358 of this Guidance Statement.

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- 250 For an accumulation fund, the auditor is concerned with whether the net assets of the SMSF exceed the vested benefits, which are payable to members irrespective of whether they continue as a member. If there is a deficiency in net assets with respect to vested benefits the SMSF may not be a going concern, so the auditor undertakes further audit procedures to investigate the deficiency. These procedures include identifying whether an actuarially determined technical insolvency program is in place and assessing whether it enables the SMSF to continue as a going concern. The trustee is required to initiate a technical insolvency program, designed by an actuary to return the SMSF to a solvent position within five years, if the SMSF is technically insolvent under the SISR.⁷⁷ 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.⁷⁸
- 251 For a defined benefit fund, the value of accrued benefits may be an indicator of future funding deficiencies and inadequacies in the current contribution arrangements in funding future benefits that may arise. Therefore, the auditor determines whether the value of accrued benefits exceeds the value of the SMSF's net assets. If this is the case, the SMSF may not be a going concern, so the auditor undertakes further audit procedures to investigate the deficiency, including determining whether:
- (a) The net assets exceed the value of vested benefits;
 - (b) the SMSF has a current actuarial funding and solvency certificate;⁷⁹ or
 - (c) the SMSF is technically insolvent under the SISR, due to the minimum benefit index⁸⁰ being less than 1⁸¹ and if so, whether an actuarially determined technical insolvency program has been initiated by the trustees and a special funding and solvency certificate has been obtained.

⁷⁷ Regulation 9.38(1) of the SISR.

⁷⁸ Regulation 9.35 of the SISR.

⁷⁹ Regulation 9.90 of the SISR.

⁸⁰ The minimum benefits index is calculated in accordance with regulation 9.15 of the SISR.

⁸¹ Regulation 9.21 of the SISR.

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- 252 A deficiency in net assets with respect to the value of vested benefits of a defined benefits fund indicates that the SMSF may be experiencing going concern problems and the auditor assesses the actuarial certificates and any technical insolvency program in place to determine if this deficiency can be overcome. The auditor considers:
- (a) whether the employer has been making contributions in accordance with the actuarially determined recommendations in the funding and solvency certificate;
 - (b) the employers' or members' ability to remediate the funding deficiency in the long term, including any material uncertainties regarding their ability to do so; and
 - (c) whether the pension or income streams have been commuted to a lower pension after period end, such that the SMSF's assets will be sufficient to fund the reduced pension or income stream.
- 253 The trustee of a defined benefits fund is required to obtain an actuarial funding and solvency certificate.⁸² The actuary certifies the solvency of the SMSF as at the effective date of the certificate and the minimum contributions expected to be required to secure the solvency of the SMSF on the expiry date,⁸³ which may be between one to five years after the effective date of the certificate. The auditor checks whether the certificate has ceased to have effect due to any of the reasons set out in the SISR,⁸⁴ including expiry of the certificate or occurrence of a notifiable event.
- 254 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.⁸⁵ The auditor assesses whether any technical insolvency program enables the SMSF to continue as a going concern. If

⁸² Regulation 9.09 of the SISR.

⁸³ Regulation 9.10 of the SISR.

⁸⁴ Regulation 9.12(2) of the SISR.

⁸⁵ Regulation 9.17 of the SISR.

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winding-up proceedings have commenced the SMSF is not a going concern.

- 255 Having considered the matters above, under ASA 570, the auditor may conclude that either:
- (a) an unmodified auditor's report may be issued due to the fact that:
 - (i) the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the SMSF, for the financial report to be prepared on a going concern basis; or
 - (ii) there is adequate disclosure of the principal conditions which caused the auditor to question the going concern basis, including, as appropriate, the trustees' evaluation of their significance and possible effects and any funding plans and other mitigating factors; or
 - (b) a modified auditor's report is necessary due to the existence of a material uncertainty which may cast significant doubt on the SMSF's ability to continue as a going concern, expressed as either:
 - (i) an emphasis of matter section in the auditor's report regarding a going concern uncertainty, where there is adequate disclosure of the uncertainty; or
 - (ii) a qualified or adverse opinion in the auditor's report, where there is inadequate disclosure of the uncertainty; or
 - (c) a modified auditor's report 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.
- 256 Under ASA 570 the auditor communicates to the trustees if a modified report is to be issued on the basis of going concern. This communication may be done in conjunction with communication of other matters of governance interest arising from the audit, discussed further in paragraphs 271 to 274.

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Subsequent Events

- 257 ASA 560 requires the auditor to apply audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial report have been identified. Under ASA 560 audit procedures to identify such events, are performed as near as practicable to the date of the auditor's report and may include reading the trustees' minutes, making enquiries of the SMSF's lawyers concerning litigation or a marital split and making enquiries of the trustees as to whether any subsequent events have occurred which might affect the financial report, such as sales of investments or significant adjustments to investment values.
- 258 The auditor's response to the subsequent events depends on the potential for such events to affect the financial report and the appropriateness of the auditor's opinion. For example, if the trustees decide to wind up the SMSF, this would be a material event requiring appropriate disclosure and amendments to the financial report. Whereas, if an immaterial investment of the SMSF became worthless, this may not warrant any amendment.

Winding-Up

- 259 If the trustees decide to wind up the SMSF, the audit of the SMSF will cover the period from the previous balance date to the date it is wound up.
- 260 Upon winding-up, an audit is performed with increased testing in the areas of:
- Liquidated investments – to determine whether they were realised for cash or transferred *in-specie* and what value was received.
 - Benefit payments – to test that they are *bona fide*, calculated correctly and paid to the correct individual with the correct amount of tax deducted and remitted.
 - Rollovers – to test whether they were paid to complying superannuation funds.

Anti-money Laundering

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- 261 *The Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) is legislation designed to deter money laundering and terrorism financing. The AML/CTF Act sets out which entities are reporting entities and then imposes obligations on them when they provide one or more of the 'designated services' as set out in the AML/CTF Act. Currently, SMSFs do not provide a designated service and accordingly are not required to report under the AML/CTF Act. 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

- 262 With respect to the financial audit, the SISA, section 35C, requires the auditor to:
- (a) report on the audit of the SMSF's financial report for the year of income; and
 - (b) give the trustees the report in the approved form,⁸⁶ 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.⁸⁷
- 263 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.
- 264 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 of the Auditor's Report

- 265 Modifications to the auditor's report may be either:

⁸⁶ The approved form auditor's report is contained in Appendix 3 of this Guidance Statement.

⁸⁷ Regulation 8.03 of the SISR.

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- (a) an emphasis of matter paragraph, which does not affect the auditor's opinion;
- (b) a qualified opinion;
- (c) a disclaimer of opinion; or
- (d) an adverse opinion.

ASA 701 contains requirements and guidance regarding when a modification to the auditor's report on the financial audit is necessary.

266 An auditor's report may be modified by adding an emphasis of matter paragraph to highlight:

- (a) a significant uncertainty regarding a going concern matter;
- (b) a significant uncertainty regarding a future matter outside the control of the SMSF which may materially affect the financial report;
- (c) that additional disclosure is required to highlight that the financial report may be potentially misleading;
- (d) a material inconsistency in a document containing the financial report; or
- (e) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.

The addition of such an emphasis of matter paragraph does not affect the auditor's opinion, but draws the user's attention to the matter raised.

267 A qualified opinion may be issued for a SMSF where there exists a disagreement with the trustees or a limitation on the scope of the auditor's work which is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. A limitation of scope may arise due to circumstances, inadequate accounting records or when the auditor is unable to carry out an audit procedure believed to be desirable and no reasonable alternative procedure is available. A qualified opinion is expressed as being "except for" the effects of the

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matter to which the qualification relates. The opinion paragraph is headed “Qualified Auditor’s Opinion”.

- 268 A disclaimer of opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an opinion on the financial report. In these circumstances, the opinion paragraph is headed “Disclaimer of Auditor’s Opinion”.
- 269 An adverse opinion is expressed when the effect of a disagreement with the trustees is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor’s report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph is headed “Adverse Auditor’s Opinion”.
- 270 Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons is included in the auditor’s report and, unless impracticable, a quantification of the possible effect on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore are included in the basis for modification paragraph of the auditor’s report.

Communication of Audit Matters

- 271 Under ASA 260 the auditor communicates matters of governance interest arising from the audit to the trustees on a timely basis, to enable the trustees to take appropriate action. Ordinarily, the auditor initially discusses with the trustees and/or management those matters arising from an audit that are causing concern, including expected modifications, if any, to the auditor’s report. This provides the trustees with an opportunity to clarify facts and issues and to provide further information.
- 272 The auditor is also required under ASA 260 to inform the trustees of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the auditor during the audit that were determined to be immaterial, both individually and in the aggregate, to the financial report taken as a whole.
- 273 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

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

- 274 Under ASA 250, any non-compliance which the auditor considers to be intentional and material, is communicated to the trustees without delay. The auditor's statutory reporting responsibilities in relation to non-compliance also necessitate reporting of such matters to the trustees under section 129 of the SISA.⁸⁸

⁸⁸ Reporting under section 129 of the SISA is discussed in paragraphs 364 to 366.

Part B – Compliance Audit

- 275 The compliance audit 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 restrictions;
 - (d) benefits restrictions;
 - (e) contributions restrictions;
 - (f) solvency; and
 - (g) other regulatory information.
- 276 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.
- 277 The auditor may use a checklist as an aide in conducting and documenting the compliance audit. Standardised checklists are available from a number of professional organisations and from the ATO, which is contained in Instructions for Auditors of SMSFs *Auditing a Self Managed Super Fund – Questions and statements to consider when auditing a self managed super fund.*⁸⁹

⁸⁹ The ATO's compliance checklist *Instructions for Auditors of SMSFs - Auditing a Self Managed Super Fund – Questions and statements to consider when auditing a self managed super fund* (NAT 16308-08.2008) is available at www.ato.gov.au/superprofessionals. In addition the

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Table 1: Summary of Criteria for Compliance Audit

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

Category	Specific Criteria	Auditor's Report Part B	ACR
		SISA/SISR	SISA/SISR
<u>Establishment and operation of the SMSF</u>	Meets the definition of a SMSF.	S.17A ⁹⁰	S.17A
	Trustees are not disqualified persons.	S.121 ⁹¹	S.121
	Maintains minutes and records for specified time periods.	S.103	S.103
	Maintains trustees' declarations regarding duties for those who become trustees for the first time after 30 June 2007.	S.104A ⁹²	S.104A
	Proper accounting records kept and retained for 5 years.	S.35A	-
	Annual financial report prepared, signed and retained for 5 years.	S.35B	-
	Trustee provides auditor documents within 14 days of request.	S.35C(2)	S.35C(2)

ATO's electronic SMSF audit tool (eSAT), for use in conducting compliance audits, is due to be issued in 2008.

⁹⁰ Section 17A of the SISA is a requirement which is included in the approved form auditor's report for periods ending on or after 30 June 2008, but was not included in the approved form auditor's report for the previous period.

⁹¹ Section 121 was repealed and replaced with section 126K of the SISA, on 26 May 2008.

⁹² Section 104A of the SISA is a requirement which is included in the approved form auditor's report for periods ending on or after 30 June 2008, but was not previously opined upon.

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Category	Specific Criteria	Auditor's Report Part B	ACR
		SISA/SISR	SISA/SISR
	Prohibition on entering contracts restricting trustees' functions and powers.	S.52(2)(e)	-
	Trustees formulate 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.	S.62	S.62
<u>Investment restrictions</u>	Restrictions on acquiring or holding "in-house" assets.	Ss.69-71E; Ss.73-75; Ss.80-85	S.82, S.83, S.84 & S.85
	Restrictions on acquisitions of assets from related parties.	S.66	S.66
	Maintains arm's length investments.	S.109	S.109
	Maintains SMSF money and other assets separate from those of the trustees and employer-sponsors.	S.52(2)(d)	S.52(2)(d)
	Prohibition on lending or providing financial assistance to member or relative.	S.65	S.65
	Restrictions on borrowings.	S.67	S.67
	Prohibition on charges over SMSF assets.	R.13.14	R.13.14
<u>Benefits</u>	Trustees maintain members' minimum benefits.	R.5.08	R.5.08

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Category	Specific Criteria	Auditor's Report Part B	ACR
		SISA/SISR	SISA/SISR
<u>restrictions</u>	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>Solvency</u>	Unsatisfactory financial position.	-	S.130 ⁹³
<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.	-	S.130A ⁹⁴

Materiality

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

- Potential damage to members of a breach of the SISA or SISR occurring.

⁹³ 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.

⁹⁴ Other regulatory information is reported separately from other contraventions in Section G of the ACR and the seven tests set out in the ACR instructions are not applicable.

- Whether disclosure of a breach would influence members', trustees' or the ATO's perceptions or decisions, including whether the breach would be reportable in an ACR.
- Potential monetary value of increased tax resulting from a breach.
- Potential monetary value or severity of any penalties.
- Whether there are any arm's length members, such as members who are subject to a legal disability.

Establishment and Operation of the SMSF

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

- (a) the SMSF meets the definition of SMSF;
- (b) the trustees are not disqualified persons;
- (c) the SMSF's minutes and records are retained for the prescribed periods;
- (d) the SMSF has and retains trustee declarations of duties signed by any new trustees after 30 June 2007;
- (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 and given effect.

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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.⁹⁵

Definition of SMSF

- 280 To determine if the SMSF meets the definition of SMSF,⁹⁶ the auditor may conduct procedures including:
- Examination of the trust deed, member applications and minutes of trustees' meetings to identify the members and trustees and that they comply with the relevant legislation.
 - Enquiry of management 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.
 - Obtaining trustee representations.

Disqualified Persons

- 281 An individual SMSF trustee is disqualified under the SISA⁹⁷ if they are:
- (a) convicted of an offence in respect of dishonest conduct;
 - (b) the subject of a civil penalty order;
 - (c) an insolvent under administration (includes an undischarged bankrupt under the *Bankruptcy Act 1966*); or
 - (d) disqualified by the ATO.
- 282 A corporate trustee is disqualified if:
- (a) the responsible officer is a disqualified person; or

⁹⁵ Subsection 35C(2) of the SISA.

⁹⁶ The definition of a SMSF is in section 17A of the SISA.

⁹⁷ Subsection 120(1) of the SISA.

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- (b) the company is in receivership, administration, provisional liquidation or has begun winding-up proceedings.
- 283 Ordinarily the auditor verifies that the trustees are not disqualified by obtaining trustee representations to that effect. During the course of the audit the auditor remains alert to circumstances which may indicate that a trustee may be technically disqualified, such as personal financial difficulties or a trustee's involvement in legal proceedings. In this case, the auditor may make enquiries such as checking the trustee's details against APRA's disqualification register,⁹⁸ the National Personal Insolvency Index listing bankrupts, ASIC Company Register for Company Status or other commercial databases providing record search facilities.

Maintenance and Provision of SMSF Records

- 284 The auditor obtains representations from the trustees that the minutes and records of meetings have been held for 10 years (or from SMSF inception for funds under 10 years old), accounting records and financial reports have been retained for 5 years (or from SMSF inception for funds under 5 years old) and trustees appointed after 30 June 2007 have signed a "Trustee Declaration".⁹⁹
- 285 The auditor examines the company secretarial records to corroborate the trustees' representations regarding retention of records.
- 286 The SISA requires that the records be kept in the English language or a form that is readily convertible to English.¹⁰⁰ 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.
- 287 The auditor may request documents from the trustees required to conduct the audit. If the trustees fails to provide the documents required within the specified time period, this is a compliance breach which, if material, the auditor reports in the compliance report.

⁹⁸ The ATO disqualification register was not established at the date of publication, however as APRA was the regulator of SMSFs prior to the ATO, APRA's register reflects disqualifications imposed when APRA regulated SMSFs.

⁹⁹ The *Trustee Declaration* is an approved form issued by the ATO (NAT 71089), available from the ATO's website at www.ato.gov.au.

¹⁰⁰ Section 35A of the SISA.

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Contracts Restricting Trustees' Functions and Powers

- 288 The auditor considers contracts entered into on behalf of the SMSF, the trust deed 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.¹⁰¹ The auditor may obtain representations from the trustees that no such arrangement has been entered into.

Investment Strategy

- 289 In the approved form auditor's report the auditor states that their procedures "included testing that the fund trustee has an investment strategy, that the trustee has given consideration to risk, return, liquidity and diversification and that the fund's investments are made in line with that investment strategy". The SISR¹⁰² requires the trustees of a SMSF to formulate and give effect to an investment strategy that has regard to all the circumstances of the SMSF, including:
- The risk involved in making, holding and realising, and the likely return from, the SMSF's investments, having regard to its objectives and expected cash flow requirements.
 - The composition of the SMSF's investments as a whole, including the extent to which they are diverse or involve exposure of the SMSF to risks from inadequate diversification.
 - The liquidity of the SMSF's investments, having regard to its expected cash flow requirements.
 - The ability of the SMSF to discharge its existing and prospective liabilities.

¹⁰¹ Section 52(2)(e) of the SISA.

¹⁰² Regulation 4.09 of the SISR.

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- 290 Ordinarily the investment strategy is documented in writing¹⁰³ 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”.
- 291 For defined benefit funds, liquidity is of particular concern as members’ benefits are not based on the SMSF’s return on investments, so the auditor conducts additional procedures to test whether the trustee has properly considered liquidity, having regard to expected cash flow requirements necessary to fund liabilities, particularly benefit payments.¹⁰⁴
- 292 In order to determine whether the trustees have given effect to the investment strategy, the auditor assesses whether the investments made during the period are invested according to the documented investment strategy as approved by the trustees. The auditor enquires 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.

Sole Purpose

- 293 The SISA¹⁰⁵ requires the trustees to ensure that the SMSF is maintained solely for one or more of the allowable core purposes and, in addition, may also be maintained for one or more of the allowable ancillary purposes. The allowable core purposes are the provision of benefits for each member on their retirement, attainment of a prescribed age or death prior to retirement or attaining the prescribed age. The allowable ancillary purposes are the provision of benefits for each member on termination of employment, cessation of work due to ill-health, death after retirement or attainment of a prescribed age, or a benefit approved by the ATO. The “sole purpose test” is a conceptual test that when satisfied demonstrates that the SMSF has in fact been maintained solely for the allowable

¹⁰³ There is no requirement in SISA or SISR for the trustees to maintain the investment strategy in writing, however a written strategy is the usual way that the trustee demonstrates that they have formulated an investment strategy in compliance with the SISR.

¹⁰⁴ Going concern, including liquidity issues, for defined benefit funds are discussed in paragraphs 251 to 253 of this Guidance Statement.

¹⁰⁵ Section 62 of the SISA.

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purposes and requires a higher standard than maintenance of the SMSF for a dominant or principal purpose. The approved form auditor's report, in Appendix 3 of this Guidance Statement, requires the auditor to separately state that their procedures "included testing that the fund trust deed establishes the fund solely for the provision of retirement benefits for fund members or their dependents in the case of a member's death before retirement".

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

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

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

296 In auditing compliance with the sole purpose test, the auditor looks for the provision of current day benefits, being benefits to a member or related party before the member's retirement, employment termination or death, and assesses whether those benefits fail the sole purpose test. An asset of a SMSF which provides current day benefits to a related party is generally an "in-house" asset and, even if it does not breach the sole purpose test, it still cannot exceed, in combination with other in-house assets, the restriction on the value of

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in-house assets which may be held by the SMSF. In-house assets are discussed further in paragraphs 312 to 315.

- 297 Current day benefits are likely to fail the sole purpose test if the benefit:
- Was negotiated or sought out by the trustees.
 - Has influenced the decision making of the trustees.
 - Has been provided at a cost or financial detriment to the SMSF.
 - Is part of a pattern or preponderance of events which, when viewed in their entirety, amount to a material benefit being provided that is not specified under section 62(1).
- 298 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 52 of the SISA.
 - The benefit relates to activities which are part of a properly considered and formulated investment strategy.
- 299 The sole purpose test is complemented by other restrictions in SISA relating to dealings with members and related parties, such as prohibitions on:
- Transactions not at arm's length.¹⁰⁶
 - Borrowings.¹⁰⁷

¹⁰⁶ Section 109 of the SISA.

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- Loans or financial assistance to members or relatives.¹⁰⁸
- Acquisitions from related parties.¹⁰⁹
- Charges over assets.¹¹⁰
- Assignment of, or charges over, member's benefits.¹¹¹
- SMSF assets not held separately from the members' personal assets.¹¹²
- Acquisition of "in-house" assets in excess of 5% of the total market value of the SMSF assets.¹¹³

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

Running a Business

- 300 The auditor remains alert to circumstances which indicate that the SMSF is running a business or conducting operations which may be akin to running a business, as this activity may breach the sole purpose test. Indications that a business is being conducted by the SMSF may include revenues from trading activities, employing staff and paying operating expenses. A business is not usually administered for the sole purpose of providing the allowable benefits to members or beneficiaries of the SMSF, as there is an inherent risk that running a business may jeopardise the member's benefits.
- 301 In addition, running a business may breach other restrictions. Running the business may not be consistent with the SMSF's investment strategy. Many businesses routinely borrow to provide working capital and purchase goods on credit, which prima facie breach the borrowing restrictions, discussed further below. If a trustee is also an employee of the business, payment of salary or wages to the trustee may be construed as remuneration to the trustee
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¹⁰⁷ Section 67 of the SISA.

¹⁰⁸ Section 65 of the SISA.

¹⁰⁹ Section 66 of the SISA.

¹¹⁰ Regulation 13.14 of the SISR.

¹¹¹ Regulations 13.12 and 13.13, SISR.

¹¹² Section 52(2)(d) of the SISA.

¹¹³ Part 8 of the SISA.

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for the duties or services performed by the trustee in relation to the SMSF, which is a breach of the definition of SMSF under the SISA.¹¹⁴ The auditor assesses all circumstances of a SMSF running a business to determine whether it is in breach of the SISA or SISR.

- 302 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.

Collectibles

- 303 Collectibles may be permitted investments for SMSF, however they lend themselves to personal enjoyment and, therefore, may involve significant current day benefits if members or related parties use or access the collectibles. Audit procedures, to establish whether members or related parties are deriving personal enjoyment or benefit from the collectible, may include:
- Verifying registration and insurance in the SMSF's name.
 - Identifying where the collectible is located or stored.
 - Establishing whether it was used during the period and, if so, whether commercial rates of hire or lease were paid for that use.
- 304 The treatment and classification of collectibles is an area where the auditor exercises professional judgment to determine whether the investment is compliant with the sole purpose test and other requirements of the SISA and SISR. The auditor satisfies themselves that the underlying reason or rationale for investment in collectibles is reasonable, including whether the risks involved in making, holding and realising the investment, and the likely return, are consistent with the SMSF's investment strategy and cash flow requirements, given potential difficulties in realising the investment in some collectibles.

¹¹⁴ Section 17A of the SISA.

Table 2: Examples of Audit Procedures for Collectibles

Table 2 provides examples of the threats in meeting the sole purpose test and related SISA and SISR compliance posed by investments in collectibles, and suggested audit procedures to determine whether the sole purpose test is satisfied. Detailed examples are provided in SMSFR 2008/2. The list is not exhaustive.

Collectible	Sole purpose test threats	Suggested audit procedures
Artworks	<ul style="list-style-type: none"> On display/view at member's or related party's home/office. On display without an arm's length lease at commercial rates. Investments in artworks are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties. 	<ul style="list-style-type: none"> If on display with a third party, verify arm's length lease in place at commercial rates. If on display with a member or related party it is unlikely to pass the sole purpose test, nevertheless it may be possible if the auditor can verify that benefit from displaying the art work is remote, isolated or insignificant, the benefit is an inherent part of other activities and the SMSF did not suffer any financial detriment. Verify if the artwork is insured in the SMSF's name. Validate that artwork is stored in a safe and secure manner. Check whether holding artwork is consistent with the investment strategy. Consider sighting artwork to test above.
Jewellery	<ul style="list-style-type: none"> Worn or displayed by member or related party for little or no consideration. Investments in jewellery 	<ul style="list-style-type: none"> Verify storage in a bank safe deposit or similar off site repository or, if held at a member's private address, verify an arm's

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Collectible	Sole purpose test threats	Suggested audit procedures
	<p>are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties.</p>	<p>length lease is in place at commercial rates and current day benefits are not enjoyed.</p> <ul style="list-style-type: none"> • Verify if the jewellery is insured in the SMSF's name. • Check whether holding jewellery is consistent with the investment strategy. • Sight bank safe deposit arrangement to test above. Consider inclusion in bank audit confirmation letter request.
Classic cars	<ul style="list-style-type: none"> • Driven by member or related party for pleasure, competition or rallying for little or no consideration. • Displayed by member or related party for little or no consideration. • Investments in cars are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties. 	<ul style="list-style-type: none"> • Verify where the car is garaged. If kept at a member's home or office, verify if an arm's length lease is in place at commercial rates and current day benefits are not enjoyed. • Compare odometer readings at beginning of year and at year end to see mileage during the year which may indicate provision of current day benefits. • Some very limited driving for maintenance may be permissible. Sight invoices for description of any work. • Ensure any expenditure on restoration is appropriate. • Verify that the car is registered and insured in

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Collectible	Sole purpose test threats	Suggested audit procedures
		<p>the SMSF's name.</p> <ul style="list-style-type: none"> • Check whether holding cars is consistent with the investment strategy.
Coins/stamps	<ul style="list-style-type: none"> • Enjoyed or displayed in the member's home or related party's home. • Displayed by member as trading stock or lent to a related party as stock or display stock for little or no return. • Investments in coins or stamps are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties. 	<ul style="list-style-type: none"> • Verify storage in a bank safe deposit or similar off site repository and not with a member's personal effects unless a lease is in place at commercial rates and current day benefits are not enjoyed. • Check that coins/stamps are insured by SMSF, not by a member or trustee. • Check whether holding coins or stamps is consistent with the investment strategy.
Antiques	<ul style="list-style-type: none"> • Used, enjoyed or displayed in the member's or related party's home, office or other building owned by the member or related party. • Investments in antiques are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties. 	<ul style="list-style-type: none"> • If on display, verify that an arm's length lease is in place at commercial rates and current day benefits are not enjoyed. • Verify that the antiques are insured in the SMSF's name. • Verify stored in a safe and secure manner. • Check whether holding antiques is consistent with the investment strategy.
Sporting memorabilia	<ul style="list-style-type: none"> • Displayed in the member's or related party's home, office or other building owned by the member or related party. • Investments in 	<ul style="list-style-type: none"> • If on display, verify arm's length lease in place at commercial rates and current day benefits are not enjoyed. • Verify that the

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Collectible	Sole purpose test threats	Suggested audit procedures
	memorabilia are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties.	<p>memorabilia is insured in the SMSF's name.</p> <ul style="list-style-type: none"> • Verify that memorabilia is stored in a safe and secure manner. • Check whether holding memorabilia is consistent with the investment strategy.
Wine	<ul style="list-style-type: none"> • Wine stored at member's or related parties' home, office or other building owned by the member or related party on display or accessible for consumption. • Investments in wine are not consistent with the investment strategy and purchased to provide current day benefits to members or related parties. 	<ul style="list-style-type: none"> • Check that wine is stored correctly in a temperature / humidity controlled environment. • Identify a strategy in place to dispose of non-investment quality wine or vintages. • Check that when wine is no longer required it is not consumed by a member or trustee unless sold to them at arm's length.¹¹⁵ • Check whether holding wine is consistent with the investment strategy.

305 Other collectibles, such as precious metals or fine china, may be allowable investments. However, the general principle, that the investment in a collectible should not provide a current day benefit, remains. Ordinarily, the auditor considers the full circumstances of the investment before forming an opinion as to whether it is in compliance with the SISA and SISR.

¹¹⁵ Purchasing wine from a SMSF is only permitted if the purchase complies with the requirement to make and maintain investments of the SMSF at arm's length in accordance with section 109 of the SISA.

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Lifestyle Assets

- 306 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. 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.
- 307 Investments in broadly held schemes or arrangements to develop and sell recreational property may be permitted, if there is no residual entitlement to utilise the facilities, or otherwise enjoy the benefits of the development and where the scheme does not involve running a business.
- 308 Investments in holiday houses or apartments need to be justifiable as a legitimate part of the SMSF's investment strategy, and the accommodation is required to be rented out at commercial rates. Use or enjoyment of the property by the trustees, members or a related party is a strong indication that the sole purpose test may have been breached and may also render the investment an "in-house" asset,¹¹⁶ in which case the in-house asset limits will apply. However, if use of the property by the trustees, members or a related party is at arm's length, for short periods only, and in circumstances where there is an independent third party real estate agent/manager that is in charge of the rental arrangements, the SMSF may still satisfy the sole purpose test.
- 309 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.

¹¹⁶ Guidance on "in-house" assets is provided in paragraphs 312 to 315 of this Guidance Statement.

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Units in a Related Unit Trust

- 310 Investments in related unit trusts, where trustees or members of the SMSF are also trustees of the related unit trust, are common SMSF investments. The auditor considers the sole purpose test in light of the investments held in, and by, the related unit trust to ensure that the investments held are for the long-term provision of allowable benefits to members and not to provide other benefits to the trustees, members or their relatives. The auditor will also need to consider whether the investment breaches the prohibition on acquisitions from related parties, the prohibition on borrowings or exceeds the “in-house” asset limits.

Investment Restrictions

- 311 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. In particular, the auditor:
- (a) Examines the documentation supporting the investment to determine whether it was undertaken and maintained on a commercial and arm’s length basis.
 - (b) Evaluates whether the investment has been held separately from the personal assets of the trustees.
 - (c) Evaluates whether other entities may be benefiting inappropriately from the transaction.

“In-house Assets”

- 312 An “in-house” asset of a SMSF is an asset that is loaned to a related party, an investment in a related party, an investment in a related trust or an asset of the SMSF subject to a lease between the trustees and a related party of the SMSF.¹¹⁷ A related trust is a trust that a member or employer-sponsor controls.¹¹⁸ There are a number of exceptions to the definition of in-house assets and transitional

¹¹⁷ Defined in subsection 10(1) of the SISA.

¹¹⁸ Defined in subsection 10(1) of the SISA.

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provisions included in Part 8 of the SISA.¹¹⁹ The auditor needs to be familiar with these exceptions when considering in-house asset requirements.

- 313 The SISA has strict limits on the level of “in-house assets” permitted to be held by the SMSF. The market value of the in-house asset must not exceed 5% of the total market value of the SMSF’s assets at the time of acquisition¹²⁰ and at year end.¹²¹ Also the trustees are prohibited from acquiring an in-house asset that would cause the total of all in-house assets to exceed this 5% ratio. The auditor examines the investments of the SMSF to identify potential in-house assets to ensure that the legislative limits are not exceeded either when they were acquired or at year end.
- 314 If a SMSF invests in in-house assets but does not account for its investments at market value, the auditor obtains market values in order to ascertain whether a breach has occurred.
- 315 The auditor remains alert to schemes intentionally entered into or carried out by the trustees which have the effect of artificially reducing the market value ratio of the SMSF’s in-house assets. Such actions are prohibited under the SISA.¹²²

Acquisition of Assets from Related Parties

- 316 Trustees and investment managers are prohibited, under the SISA,¹²³ 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; or
 - (c) in-house assets within the 5% ratio limit.

¹¹⁹ See also regulations 13.22B, 13.22C and 13.22D of the SISR.

¹²⁰ Section 83 of the SISA.

¹²¹ Section 82 of the SISA.

¹²² Section 85 of the SISA.

¹²³ Section 66 of the SISA.

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- 317 Business real property¹²⁴ is land and buildings used wholly and exclusively for business purposes.¹²⁵ 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 forms part of a primary production business and does not exceed two hectares in area or the provision of accommodation is in the nature of a business (e.g. for a motel).
- 318 Ordinarily, the auditor examines the documentation surrounding the purchase of material investments, other than those which fall into one of the exceptions above, to ascertain whether the vendor was a related party. This may involve checking the contract or sale document to confirm who the parties to the transaction were and, to the extent possible, their relationship with the trustees and members. The auditor makes enquiries in the planning phase of the audit in order to identify related parties, whether individuals or entities related to the trustees or members.

Arm's Length Investments

- 319 The SISA¹²⁶ 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.
 - No formal contracts established for loan, lease or other arrangement.

¹²⁴ Defined in subsection 66(5) of the SISA.

¹²⁵ Further guidance is available in Draft Public Ruling SMSFR 2008/D3 issued by the ATO.

¹²⁶ Section 109 of the SISA.

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- Assets, such as rental properties, deriving little or no income, or income well below commercial rates.
 - Investments which are inconsistent with the investment strategy or entered into without a sound rationale.
- 320 The auditor assesses all aspects of the transaction, including that the settlement terms, interest rates, rents, lease refurbishment term, warranties, security and repayment terms are commercial in nature.

Assets Held Separately

- 321 The trustees are required¹²⁷ 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 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 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, there is evidence that those assets are held beneficially on behalf of the SMSF, such as a declaration of trust.
- 322 The auditor 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

- 323 SMSFs are not permitted to lend money or provide financial assistance to members or their relatives¹²⁸ and the approved form auditor's report states that the auditor procedures included "a review of investments to ensure the fund is not providing financial assistance to members, unless allowed under the legislation". The auditor examines the bank account and obtains explanations for material withdrawals and deposits in order to ascertain whether any loan or financial assistance benefit has been provided to a trustee,

¹²⁷ Subsection 52(2)(d) of the SISA.

¹²⁸ Section 65 of the SISA.

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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.¹²⁹

- 324 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.
- 325 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

- 326 SMSFs are not permitted to borrow money,¹³⁰ with the exceptions of borrowings:
- (a) to pay a benefit, or superannuation contribution surcharge liability (no longer levied), for a maximum of 90 days for up to 10% of the value of the SMSF's assets;
 - (b) to cover settlement on a security transaction for a maximum period of 7 days, for up to 10% of the value of the SMSF's assets; or
 - (c) that are part of an instalment warrant arrangement.
- 327 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.
- 328 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

¹²⁹ 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.

¹³⁰ Section 67 of the SISA.

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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.

- 329 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.
- 330 Investments in instalment warrants are an exception to the prohibition on borrowings. Instalment warrants are complex financial arrangements whereby the SMSF buys an asset via an instalment warrant agreement where there is some debt funding or borrowing to purchase the asset. The transaction is characterised by an asset held in trust for the SMSF, where the SMSF holds an interest in the income and the rights to acquire the asset. The SMSF may be required to make regular instalments or repayments. Recourse by the lender, in the case of failure to settle the loan, is required to be solely over, and limited to, the asset held in the trust arrangement. After commencing the borrowing, the SMSF is required to make at least one payment before purchasing the asset. Whilst there is no formal requirement for regular repayments/instalments, the lack of repayments may bring into question the commercial rationale of the underlying investment and whether the sole purpose test is being breached.
- 331 Procedures which the auditor may conduct in auditing compliance of instalment warrants with the SISA and SISR may include:
- Examination of the trust deed to determine if the SMSF is permitted to borrow.

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- Examination of the investment strategy, or discussions with the trustees if there is no written investment strategy, to determine if instalment warrant arrangements and the percentage of funds devoted to them are allowed within that strategy.
- Identification of the nature of 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 trust deed.
- Determination of whether the debt arrangement or loan agreement is a non-recourse agreement as required by the SISA,¹³¹ 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 instalment warrant arrangement.
- Identification of whether the terms of the loan are commercial. Less than commercial interest rates may be a means of making additional contributions to the SMSF, whereas an excessively high interest rate may fail the sole purpose test, or potentially be a scheme to access benefits.
- Identification of any arrangements outside the SMSF, such as a personal guarantee, which may have recourse to the assets of the SMSF, other than the asset acquired (or any replacement), as this may be a breach of the borrowing restriction exception granted to instalment warrant arrangements.
- Determination of whether the original asset has been added to in any way, either by additional shares or further purchases, since if the instalment warrant asset has

¹³¹ Subsection 67(4A)(d) of the SISA.

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increased, this would indicate a further borrowing and therefore a potential breach of the prohibition on borrowing.

Charges Over Assets

- 332 SMSFs are not permitted to use the assets of the SMSF to secure a debt facility¹³² and, hence, charges and liens over assets are not permitted. Also charges and liens over any member benefits are prohibited. Accordingly, the auditor reviews the minutes, correspondence and records of the trustees to identify whether any charges or debt facilities have been applied for or established. Additional audit procedures include review of any bank confirmations for charges, dividend reinvestment options, title searches on properties of the SMSF to identify any charges or liens and examination of the accounting records or bank statements to identify any interest payments made by the SMSF, which may indicate a loan facility.
- 333 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.
- 334 Where the SMSF has investments in related or unlisted unit trusts, the auditor is alert to any borrowings the unit trust may have and whether there is any recourse to the SMSF. Any borrowings by the unit trust must be in accordance with the SISA and SISR. Certain unit trusts established pre-July 1999 may be subject to transitional legislation that permits borrowings. The auditor assesses the legislative requirements that apply to the trust and whether the borrowing is permitted on an ongoing basis or needs to be repaid. Additional audit procedures may need to be conducted to assess this. Specialist legal advice may be sought if the auditor is unsure whether the investment exposes the SMSF to borrowings.
- 335 Ordinarily, the auditor requests a financial report, the tax return and distribution statements, for investments in unit trusts, to identify

¹³² Regulation 13.14 of the SISR.

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

Benefit Restrictions

- 336 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.

Minimum Benefits

- 337 The trustees are required¹³³ to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred. For defined benefit funds, the auditor ensures that the minimum benefits have been calculated correctly by reference to the formula provided in the trust deed, the SMSF's records and the actuarial valuation, if appropriate. The SISR require annual or triennial actuarial reports to be obtained by the trustees for defined benefit funds, depending on the circumstances. The actuarial report states whether, in the actuary's opinion, the value of the SMSF's assets is adequate to meet the accrued benefits of members at the valuation date. For accumulation funds, the minimum benefit which needs to be maintained is the value of vested benefits.

Payment of Benefits

- 338 Generally, benefits are triggered due to a condition of release being met and 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 SISR¹³⁴ and may be further restricted by the SMSF's trust deed. Conditions of release may include retirement,

¹³³ Regulation 5.08 of the SISR.

¹³⁴ Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.

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death, temporary incapacity, terminal medical condition, permanent incapacity, attaining the prescribed preservation age for a transition to retirement benefit,¹³⁵ severe financial hardship, compassionate grounds approved by APRA,¹³⁶ attaining age 65 or a request to rollover. A condition of release triggers either a lump sum payment or a pension.

- 339 For pension payments, the auditor ensures that any payments meet the minimum or maximum¹³⁷ payment conditions as stipulated in the SISA and SISR and an appropriate condition of release has been met. For lump sum payments, the auditor ensures that the trust deed permits such payments and that an appropriate condition of release has been satisfied.
- 340 In relation to testing the compliance of both lump sum or pension-type benefits, the auditor considers whether:
- (a) the circumstances of the individual in triggering the payment of the benefit are consistent with a condition of release;
 - (b) the member has satisfied the payment criteria; and
 - (c) the benefit has been calculated correctly in accordance with the method provided in the trust deed and the governing rules.
- 341 Ordinarily, the auditor tests the validity of the payment by checking to source documents that the benefit payment is *bona fide*, such as sighting a signed letter to the trustees requesting the benefit be paid and that retirement is evidenced by a statutory declaration or similar document stating that the individual has retired and will not be seeking paid employment in the future.
- 342 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 trust deed or governing

¹³⁵ 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.

¹³⁶ The Commissioner of Taxation delegated the authority as regulator with respect to approval of compassionate reasons to APRA.

¹³⁷ Maximum payments exist for transition to retirement income streams.

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rules of the SMSF. The SMSF may or may not have insurance for total and permanent disability.

- 343 With respect to death benefits, the auditor confirms that the member is deceased by sighting a funeral notice or death certificate and verifies that the correct death benefit has been paid. The auditor enquires as to whether any additional insurance benefit is payable and whether the trustees have claimed any available tax deductions for anti-detriment payments.
- 344 If an appropriately witnessed and executed binding death benefit nomination has been made, ordinarily, the auditor enquires to ensure that the benefit was paid appropriately according to the nomination's intent.
- 345 If the SMSF has an insurance policy covering total and permanent disability, total and temporary disability or death or a combination of these benefits, ordinarily the auditor enquires to see if a claim has been made or paid to support the benefit. If the proceeds of any such claim have been paid, ordinarily, the auditor checks to see that the benefit has been applied either to the member's account or paid to the legal personal representative or beneficiaries.

Assignment of Members' Interests and Charges over Members' Benefits

- 346 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,¹³⁸ or a charge over, or in relation to, a member's benefits.¹³⁹
- 347 The auditor reviews the trustees' minutes, contracts and correspondence to identify any arrangements which may amount to an encumbrance over members' interests or benefits. Similarly, the auditor reviews the same documentation to ensure that the benefit or member's interest has not been assigned to another individual or corporation. The auditor may obtain representations from the trustees that no such arrangements have been entered into as far as they are aware.

¹³⁸ Regulation 13.12 of the SISR.

¹³⁹ Regulation 13.13 of the SISR.

Contribution Restrictions

- 348 Ordinarily, the auditor examines all contributions made to the SMSF to assess whether they have been made in accordance with the trust deed, SISA and SISR and, that in accepting the contribution, the SMSF is not contravening the SISA and SISR. In making this assessment, the auditor identifies the type of contribution made, the age of the member and the source of the contribution.
- 349 The auditor tests that the SMSF has accepted contributions only in accordance with the SISR,¹⁴⁰ which are either:
- (a) mandated employer contributions received irrespective of the member's age, such as SG contributions, superannuation guarantee shortfall, award related and certain payments from superannuation holding accounts;
 - (b) member contributions or employer contributions (except mandated contributions) when:
 - (i) the member is under 65 years old;
 - (ii) the member is not under 65 but is under 70 and has been gainfully employed at least on a part-time basis during the financial year in which the contribution is made;¹⁴¹ or
 - (iii) the member is not under 70 but is under 75 and has been gainfully employed at least on a part-time basis during the financial year in which the contribution is made and the contribution is received no later than 28 days after the month end when the member turned 75 and, in the case of a member contribution, it is made by the member.
 - (c) other contributions for a member who is under 65 years of age; or

¹⁴⁰ Regulation 7.04 of the SISR.

¹⁴¹ 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.

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- (d) contributions received at a later date in respect of a period in which the member met the age restrictions.
- 350 The auditor also tests that contributions are:
- (a) within contribution caps specified in the SISR, being:
- (i) if the member is 64 or less on 1 July of the financial year – three times the amount of the non-concessional contributions cap; or
- (ii) if the member is 65 but less than 75 on 1 July of the financial year – the non-concessional contributions cap; and
- (b) for a member for whom a tax file number (TFN) has been supplied.
- 351 In verifying the appropriateness of contributions received the auditor considers factors including:
- The type and source of the contribution.
 - The age of the member.
 - Whether a tax file number has been provided.
 - The amount contributed.
 - The timing of when the contribution was made.
- 352 Ordinarily, the auditor checks to see that the classification of any taxable contributions is appropriate and allocated to the correct member account. If a single inappropriate contribution or contribution in excess of the contributions caps is accepted, the SMSF is not in breach of the SISA or SISR if the SMSF returns the amount within 30 days of becoming aware that the amount was received in a manner that was inconsistent with the regulations.¹⁴² The contribution is not required to be returned unless all or part of

¹⁴² Regulation 7.04 of the SISR.

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the contribution itself will cause the member to have excess non-concessional contributions for the income year.¹⁴³

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

In-specie Contributions

- 354 *In-specie* contributions are contributions to a SMSF where a physical asset (e.g. a commercial property) or an intangible asset (e.g. a share, or an option) are contributed to the SMSF on behalf a member without any cash being exchanged.

- 355 Where contributions are accepted *in-specie*, the auditor assesses whether:

- (a) the trust deed permits *in-specie* contributions; and
- (b) the SISA prohibitions on acquiring assets from related parties (including members) have been satisfied.

- 356 Once it is established that the *in-specie* contribution may be accepted, the auditor assesses whether the *in-specie* contribution is:

- (a) within the contributions cap;
- (b) valued fairly, generally at market value or independent valuation; and
- (c) not in breach of any other SISA prohibition.

Solvency

- 357 If the auditor, in the course of, or in connection with, performance of the audit of a SMSF, forms the opinion that the financial position of the SMSF may be, or may be about to become, unsatisfactory, the auditor is required to report to the ATO (in an ACR) and to the trustees in writing under section 130 of the SISA.

¹⁴³ ATO Interpretative Decision 2007/225 *Superannuation contributions: acceptance of fund capped contributions by a self managed superannuation fund.*

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- 358 Under the SISR¹⁴⁴ the financial position of a SMSF is treated as unsatisfactory if, in the auditor's opinion:
- (a) for a defined benefit fund: the value of vested benefits exceed the value of the assets; or
 - (b) 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

- 359 In the course of conducting the audit the auditor may obtain information regarding the SMSF or a trustee which the auditor considers may assist the ATO in performing its functions under the SISA or SISR. This information may relate to compliance with requirements of the SISA or SISR which are not specified in the approved form auditor's report or the ACR. Under section 130A of the SISA the auditor is required to report any such information to the ATO in the ACR.
- 360 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 audit opinion.

Other Compliance Audit Considerations

Service Organisations

- 361 If a service organisation is used by the SMSF, the auditor cannot merely rely on the Type B controls report as evidence of the SMSF's compliance with the SISA and SISR. The auditor should perform additional procedures necessary to ensure the SMSF's compliance with the SISA and SISR. If insufficient evidence of compliance can be obtained by audit procedures at the SMSF and further evidence of compliance is located at the service organisation, the auditor may either visit the service organisation to conduct compliance testing or request the SMSF to engage another auditor to conduct the testing required. This may consist of an agreed upon procedures

¹⁴⁴ Regulation 9.04 of the SISR.

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engagement, which may comprise completion of a compliance checklist with respect to the services provided.

- 362 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

- 363 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 a modified compliance opinion.

Reporting Compliance Breaches

- 364 In determining whether to report potential or actual contraventions (breaches) identified during the audit, the auditor applies different criteria in relation to their reporting obligations to:
- (a) a trustee under SISA sections 129 or 130;
 - (b) the ATO, in an ACR, under SISA sections 129 or 130; and
 - (c) the trustees in the auditor's compliance report.
- 365 The auditor reports to a trustee in writing under SISA section 129 any 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.
- 366 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:

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- (a) those contraventions meet the reporting criteria, which comprise seven mandatory tests specified in the ACR instructions;¹⁴⁵ 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.

367 ASAE 3100 requires the auditor's report on compliance to be modified if, in the auditor's judgement, material non-compliance with a requirement being reported on may exist. Consequently, the auditor determines whether any potential or actual contraventions of the SISA or SISR identified during the audit are:

- (a) contraventions of sections of the SISA or SISR specified in the approved form auditor's report; and
- (b) material to the SMSF.

368 In determining whether a contravention identified is material to the SMSF, and therefore whether a modification to the auditor's report is warranted, the auditor considers the factors in paragraph 278 as well as factors such as:

- The value of the breach.
- The time taken to rectify the breach, or if not yet rectified, the trustees' proposed actions and timeline for rectification.
- Whether the auditor has previously reported the breach in a section 129 report to a trustee or in an ACR.
- The extent to which a limit has been exceeded or a statutory deadline missed.
- Whether the breach was intentional.

¹⁴⁵ The ACR instructions (NAT 11299-05.2008) is an approved form and can be obtained from the ATO's website at www.ato.gov.au/superprofessionals.

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- 369 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.
- 370 The circumstances which may result in a modification to the auditor's compliance report are where:
- (a) a limitation of scope of the auditor's work exists, due either to circumstances or a trustee imposing a restriction, which prevents the auditor from obtaining the evidence required, in which case the auditor expresses a qualified opinion or a disclaimer of opinion; or
 - (b) the SMSF did not comply in all material respects with the requirements included in the approved form, in which case the auditor expresses a qualified or adverse opinion.
- 371 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.

Conformity with International Pronouncements

- 372 There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

APPENDIX 1

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 ATO, which are sections 17A, 35A, 35B, 35C(2), 52(2)(d), 52(2)(e), 62, 65, 66, 67, 69-71E, 73-75, 80-85, 103, 104A, 109 and 121¹⁴⁶ of the SISA and regulations 4.09, 5.08, 6.17, 7.04, 13.12, 13.13, and 13.14 of the SISR.¹⁴⁷

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

¹⁴⁶ Section 121 was repealed and replaced with section 126K of the SISA, on 26 May 2008.

¹⁴⁷ These sections and regulations need to be amended if there are any changes to the sections and regulations in the approved form auditor's report.

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Appendix 1

The Responsibilities of the Auditor

We will conduct our financial audit in accordance with Australian Auditing Standards and our compliance audit in accordance with applicable Standards on Assurance Engagements, issued by the Auditing and Assurance Standards Board (AUASB). These standards require that we comply with relevant ethical requirements relating to audit and assurance engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that you have complied, in all material respects, with the specified requirements of the SISA and SISR.

The annual audit of the financial reports and records of the Fund must be carried out during and after the end of each year of income. In accordance with section 35 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, being a day before the latest date stipulated by the ATO for lodgement of the fund's Annual Return.

Financial Audit

A financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. A financial audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial report. Due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In making our risk assessments, we consider 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 controls. However, we expect to provide you with a separate letter concerning any material weaknesses in the fund's system of accounting and internal controls that come to our attention during the audit of the financial report. This will be in the form of a trustee letter.

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Compliance Audit

A compliance audit involves performing audit procedures to obtain audit evidence about the fund's compliance with the provisions of the SISA and SISR specified in the ATO's approved form auditor's report.

Our compliance audit 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 gives due consideration to risk, return, liquidity and diversification. Our procedures will include testing whether the investments are made for the allowable purposes in accordance with the investment strategy, but not for the purpose of assessing the appropriateness of those investments to the members.

The Responsibilities of the Trustees

We take this opportunity to remind you that it is the responsibility of the trustees to ensure that the fund, at all times, complies with the SISA and SISR as well as any other legislation relevant to the fund. The trustees are also responsible for the preparation and fair presentation of the financial report.

Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report and for determining that the accounting policies used are consistent with the financial reporting requirements of the SMSF's governing rules, comply with the requirements of SISA and SISR and are appropriate to meet the needs of the members.¹⁴⁸ This responsibility includes:

- Establishing and maintaining controls relevant to the preparation of a financial report that is free from misstatement, whether due to fraud or error.
- Selecting and applying appropriate accounting policies.

¹⁴⁸ If the SMSF is a reporting entity this sentence requires amendment to read: "Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)."

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- Making accounting estimates that are reasonable in the circumstances.

As part of our audit process, we will request from the trustees written confirmation concerning representations made to us in connection with the audit.

Our audit report is prepared for the members of the Fund and we disclaim any assumption of responsibility for any reliance on our report, or on the financial report to which it relates, to any person other than the members of the fund, or for any purpose other than that for which it was prepared.

Independence

We confirm that, to the best of our knowledge and belief, the engagement team meets the current independence requirements of [specify relevant ethical requirements such as *the Code of Ethics for Professional Accountants*, as issued by the Accounting Professional and Ethical Standards Board] in relation to the audit of the fund. In conducting our financial and compliance audit, should we become aware that we have contravened the independence requirements, we shall notify you on a timely basis.

Report on Matters Identified

Under section 129 of the SISA, we are required to report to you in writing, if during the course of, or in connection with, our audit, we become aware of any contravention of the SISA or SISR which we believe has occurred, is occurring or may occur. Furthermore, you should be aware that we are also required to notify the Australian Taxation Office (ATO) of certain contraventions of the SISA and SISR that we become aware of during the audit, which meet the tests stipulated by the ATO, irrespective of the materiality of the contravention or action taken by the trustees to rectify the matter. Finally, under section 130 we are required to report to you and the ATO if we believe the financial position of the Fund may be, or may be about to become unsatisfactory.

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

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Compliance Program

The conduct of our audit in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements means that information acquired by us in the course of our audit is subject to strict confidentiality requirements. Information will not be disclosed by us to other parties except as required or allowed for by law or professional standards, or with your express consent. Our audit files may, however, be subject to review as part of the compliance program of a professional accounting body or the ATO. We advise you that by signing this letter you acknowledge that, if requested, our audit files relating to this audit will be made available under these programs. Should this occur, we will advise you. The same strict confidentiality requirements apply under these programs as apply to us as your auditor.

[Limitation of liability]¹⁴⁹

As a practitioner/firm participating in a scheme approved under Professional Services Legislation, our liability may be limited under the scheme.]

Fees

We look forward to full co-operation with [you/your administrator] and we trust that you will make available to us whatever records, documentation and other information are requested in connection with our audit.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

¹⁴⁹ Applicable to participants in a limitation of liability scheme. Accounting Professional and Ethical Standard APES 305 *Terms of Engagement*, issued by the Accounting Professional and Ethical Standards Board in December 2007, which is applicable to members of the professional accounting bodies in Australia in public practice, requires participants in a limitation of liability scheme under Professional Services Legislation to advise the client that the member's liability may be limited under the scheme.

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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 and compliance audit of the [name of SMSF].

[Insert here or attach any additional matters specific to the engagement, such as business terms and conditions, as appropriate.]

Yours faithfully,

.....

Name and Title

Date

Acknowledged on behalf of the trustees of [name of SMSF] by (signed).

.....

Name and Title

Date

APPENDIX 2

EXAMPLE OF A SELF MANAGED SUPERANNUATION FUND TRUSTEE REPRESENTATION LETTER

This 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.

[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.¹⁵⁰ 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

¹⁵⁰ If the SMSF is a reporting entity then it will be required to prepare a general purpose financial report in accordance with the Australian Accounting Standards and this paragraph will need to be adapted accordingly.

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requirements of SISA and SISR, and confirm that the financial report is free of material misstatements, including omissions.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

[Include representations relevant to the Fund. Such representations may include the following examples.]

1. Sole purpose test

The Fund is maintained for the sole purpose of providing benefits for each member on their retirement, death, termination of employment or ill-health.

2. Trustees are not disqualified

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

3. Trust deed, 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 constituent trust deed at all times during the year and there were no amendments to the trust deed during the year, except as notified to you.

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.

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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.

4. Investment strategy

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

5. Accounting policies

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

6. Fund books and records

We have made available to you all financial records and related data, other information, explanations and assistance necessary for the conduct of the audit; and minutes of all meetings of the trustees.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error. 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.

All accounting records and financial reports have been kept for 5 years, minutes and records of trustees' [or directors of the corporate trustee] meetings [or for sole trustee: decisions] have been kept for 10 years and trustee declarations in the approved form have been signed and kept for each trustee appointed after 30 June 2007.

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7. Asset form and valuation

The assets of the Fund are being held in a form suitable for the benefit of the members of the Fund, and are in accordance with our investment strategy.

Investments are carried in the books at [insert valuation method: e.g. market value]. Such amounts are considered reasonable in light of present circumstances.

We have no plans or intentions that may materially affect the carrying values, or classification, of assets and liabilities.

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

8. 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.

9. 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.

10. Related parties

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

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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.

11. Borrowings

The Fund has not borrowed money or maintained any borrowings during the period, with the exception of borrowings which were allowable under SISA.

12. Subsequent events

No events or transactions have occurred since the date of the financial report, or are pending, which would have a significant adverse effect on the Fund's financial position at that date, or which are of such significance in relation to the Fund as to require mention in the notes to the financial statements in order to ensure they are not misleading as to the financial position of the Fund or its operations.

13. Outstanding legal action

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

There have been no communications from the ATO concerning a contravention of SISA or SISR which has occurred, is occurring, or is about to occur.

14. Additional matters

[Include any additional matters relevant to the particular circumstances of the audit, for example:

- *the work of an expert has been used; or*
- *justification for a change in accounting policy.]*

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We understand that your examination was made in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements and was, therefore, designed primarily for the purpose of expressing an opinion on the financial report of the Fund taken as a whole, and on the compliance of the Fund with specified requirements of 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

ATO'S APPROVED FORM AUDITOR'S REPORT FOR A SELF MANAGED SUPERANNUATION FUND

The approved form auditor's report in this Appendix has been extracted from the ATO's *Instructions and form for approved auditors of SMSFs, Self-managed superannuation fund independent auditor's report* (NAT11466.07.2008)¹⁵¹ and should be read in conjunction with those instructions. Since this approved form is updated from time to time, the applicable version may be checked on the ATO's website.

SELF-MANAGED SUPERANNUATION FUND INDEPENDENT AUDITOR'S REPORT

Auditor details

Name

Postal address

Business name

Business postal address

Professional organisation.....

Professional membership or registration number

Self-managed superannuation fund details

Self-managed superannuation fund (SMSF) name

Australian business number (ABN) or tax file number (TFN)

Address

Year of income being audited.....

¹⁵¹ The ATO's *Instructions and form for approved auditors of SMSFs, Self managed superannuation fund independent auditor's report* (NAT11466.07.2008) is available at: www.ato.gov.au/superprofessionals.

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TO THE TRUSTEES

To the trustees of [SMSF name]

Part A: Financial report

I have audited the special purpose financial report comprising [Insert the title of statements audited including reference to the summary of significant accounting policies and other explanatory notes. For example: 'the statement of financial position as at 30 June 2008, and the operating statement, statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory notes.'] of the SMSF for the year ended 30 June [year].

Trustee's responsibility for the financial report

The trustee is responsible for the preparation and fair presentation of the financial report and has determined that the accounting policies used are consistent with the financial reporting requirements of the SMSF's governing rules, comply with the requirements of the *Superannuation Industry (Supervision) Act 1993* (SISA) and the Superannuation Industry (Supervision) Regulations (SISR) and are appropriate to meet the needs of the members. The trustee's responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. I have conducted an independent audit of the financial report in order to express an opinion on them to the trustee. No opinion is expressed as to whether the accounting policies used are appropriate to the needs of the members.

The financial report has been prepared for distribution to the members for the purpose of fulfilling the trustee's financial reporting requirements under the SMSF's governing rules and regulatory requirements.

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I disclaim any assumption of responsibility for any reliance on this report, or on the financial statements to which it relates, to any person other than the members, or for any purpose other than that for which it was prepared.

My audit has been conducted in accordance with Australian Auditing Standards. These standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the trustee's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

[Additional material may be inserted here at the discretion of the auditor.]

[Basis for Qualified / Disclaimer of / Adverse Auditor's Opinion]

This section should be modified if the financial report does not accurately reflect the financial position of the fund, or in the opinion of the auditor the financial position of the fund may be, or may be about to become unsatisfactory or there are other conditions that warrant a qualification.]

[Qualified / Disclaimer of / Adverse] Auditor's Opinion

In my opinion, [except for the effects on the financial statements of the matter/s referred to in the preceding paragraph,] the financial report

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[Select one option]

- a) presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements the financial position of the fund at 30 June [year] and the results of its operations for the year then ended.

OR

- b) presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements the net assets of the fund as at 30 June [year] and the changes in net assets for the year then ended.

OR

- c) presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements (and the trust deed) the operations of the fund for the year ended 30 June [year].

Part B: Compliance

Trustee's responsibility for compliance

The trustee is responsible for complying with the requirements of the SISA and the SISR.

Auditor's responsibility

My responsibility is to express an opinion on the trustee's compliance based on the audit. My audit has been conducted in accordance with applicable Standards on Assurance Engagements to provide reasonable assurance that the trustee of the fund has complied, in all material respects, with the relevant requirements of the following provisions (to the extent applicable) of the SISA and the SISR.

Sections: 17A, 35A, 35B, 35C(2), 52(2)(d), 52 (2)(e), 62, 65, 66, 67, 69-71E, 73-75, 80-85, 103, 104A, 109, 121

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Regulations: 4.09, 5.08, 6.17, 7.04, 13.12, 13.13, 13.14

[Additional sections and regulations may be inserted here at the discretion of the auditor.]

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SISA and the SISR.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SISA and the SISR apart from those specified. My procedures with respect to section 62 included testing that the fund trust deed establishes the fund solely for the provision of retirement benefits for fund members or their dependants in the case of the member's death before retirement; a review of investments to ensure the fund is not providing financial assistance to members, unless allowed under the legislation; and that no preserved benefits have been paid before a condition of release has been met.

My procedures with respect to regulation 4.09 included testing that the fund trustee has an investment strategy, that the trustee has given consideration to risk, return, liquidity and diversification and that the fund's investments are made in line with that investment strategy. No opinion is made on the investment strategy or its appropriateness to the fund members.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

[Basis for Qualified / Disclaimer of / Adverse Auditor's Opinion]

[This section should be qualified if, in the opinion of the auditor, a contravention of one of the provisions listed is material.]

[Qualified / Disclaimer of / Adverse] Auditor's Opinion

In my opinion, [except for the matter/s referred to above,] the trustee of the fund has complied, in all material respects, with the requirements of the SISA or the SISR specified above.

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Signature

Signature of approved auditor _____

Date _____

APPENDIX 4

SELF MANAGED SUPERANNUATION FUND TRUST DEED AUDIT PLANNING CHECKLIST

In obtaining a preliminary understanding of the SMSF, as part of the planning process, the auditor examines the trust deed to obtain a sound understanding of the trustee structure, requirements of the deed and the powers vested in the trustees. The following suggested procedures are examples only and should be reviewed and adapted for the specific circumstances and audit risks associated with each SMSF audit engagement.

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

Ref	Questions to be addressed in examining the trust deed
A	ESTABLISHMENT AND EXECUTION
A.1	Is the date of establishment of the SMSF recorded?
A.2	Has the trust deed been: <ul style="list-style-type: none">• Properly executed?• Signed by all the members who are individual trustees?• Witnessed?• Dated?• Stamped (if required)?
A.3	Do the rules incorporate the SISA, SISR and applicable taxation rules?
A.4	Does the deed outline the core and ancillary purposes of the SMSF?
A.5	Does the deed require an irrevocable election to be made to be a regulated superannuation fund or a fund subject to the SISA and SISR?
A.6	Does the deed have a clause which deems the appropriate legislation into or out of the deed to allow the SMSF to remain complying?

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Ref	Questions to be addressed in examining the trust deed
B	AMENDMENTS TO THE DEED
B.1	Does the deed allow amendments?
B.2	Has the trust deed been amended since the last audit? If so: <ul style="list-style-type: none"> • Has the deed amendment been properly executed? • Is confirmation of the deed's compliance with SISA and SISR required from the solicitor or other party involved in the amendment? • Is the amendment signed off by the current trustees? • Could the amendments impact the audit?
C	TRUSTEE AND MEMBERSHIP
C.1	Does the trust deed specify who may be a trustee? Either: <ul style="list-style-type: none"> • Two or more individual trustees; or • A trustee company.
C.2	Does the deed specifically identify the trustee as either an individual or a corporate entity?
C.3	Are all individual trustees or directors of the trustee company required to be members?
C.4	Does the deed permit members to be <ul style="list-style-type: none"> • A non-working spouse? • A retired person? • A child?
C.5	Does the deed limit the maximum number of members to 4 members?
C.6	Is membership open to anyone else?
C.7	Do the members of the SMSF meet the definitions? <ul style="list-style-type: none"> • No member of the SMSF is an employee of another member, unless related. • No trustee receives remuneration for their services to the SMSF.
C.8	Does the trust deed contain the trustee covenants in s.52 of the SISA?

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Ref	Questions to be addressed in examining the trust deed
D	AUDIT AND FINANCIAL REPORTS
D.1	Does the trust deed require the appointment of an approved auditor?
D.2	Does the trust deed require the trustees to prepare a financial report annually and for it to be audited?
D.3	Does the trust deed require the trustees to keep the minutes and records of trustee decisions for at least 10 years and accounting records and signed financial reports for at least 5 years?
E	CONTRIBUTIONS
E.1	<p>Does the deed allow:</p> <ul style="list-style-type: none"> • Concessional contributions, including <ul style="list-style-type: none"> - Employer contributions, including contributions made pursuant to a salary sacrifice agreement? - Member contributions for which a tax deduction is claimed? • Non-concessional contributions, including <ul style="list-style-type: none"> - Member contributions for which no tax deduction is claimed? - Eligible spouse contributions? • Contributions in respect of minors? • Rollovers and transfers in? • Government co-contributions? • Contribution splitting to a spouse? • Contributions by members who are under 65 and not working? • Contributions by members who are working part-time and are over 65 and under 75? • Mandated contributions to be accepted at any age? • Contribution splitting arrangements pursuant to family law matters?
E.2	Does the deed allow for <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	Does the deed provide a basis for rejecting excess contributions?
E.5	May excess contributions tax levied on the member be paid by the SMSF, irrespective of preservation rules and conditions of release?

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Ref	Questions to be addressed in examining the trust deed
F	BENEFIT PAYMENTS
F.1	Does the SMSF require compulsory cashing of the members balance at a specific age?
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
G	PENSIONS
G.1	<p>Does the deed expressly allow for payment of pensions by the SMSF, including*:</p> <ul style="list-style-type: none"> • Account based pensions? • Transition to retirement income stream? • Allocated pensions? • Term allocated or market linked or growth pensions? • Complying lifetime or fixed term pensions • Non-complying lifetime or fixed term pensions? <p>*This list includes a number of pensions which may no longer be permitted but if already established may continue being paid.</p>
G.2	Does the deed allow for commutation of a pension?
G.3	Does the deed allow for the segregation of assets to meet pension requirements?
G.4	Does the deed make reference to nominated beneficiaries?
H	RESERVES (If applicable)
H.1	Does the deed provide rules in relation to the establishment, maintenance and operation of SMSF Reserves?
H.2	Does the deed require different or parallel investment strategies for each reserve account?

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Ref	Questions to be addressed in examining the trust deed
I	INVESTMENTS
I.1	Does the deed provide powers to the trustees to invest the assets of the SMSF?
I.2	Does the deed specify specific assets/asset classes that the SMSF may invest in?
I.3	Does the deed prevent investments in, or loans to, related parties?
I.4	Does the deed require an investment strategy to be formulated and given effect?
J	BORROWINGS
J.1	Does the deed prohibit borrowings?
J.2	Does the deed permit borrowing in specific circumstances, including: <ul style="list-style-type: none"> • Temporary borrowings which are required for the payment of member benefits, short term settlement of securities or superannuation contributions surcharges (no longer levied)? • Borrowings for instalment warrant arrangements?
K	WINDING-UP
K.1	Does the deed provide for the winding-up of the SMSF?

APPENDIX 5

ILLUSTRATIVE FINANCIAL AUDIT PROCEDURES FOR A SELF MANAGED SUPERANNUATION FUND

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

The procedures detailed are designed to address the financial audit of a SMSF, however, in some instances, where compliance matters are integral to the financial audit, these may also be included. For procedures in conducting a compliance audit, a compliance checklist may be used. Standardised checklists are available from a number of professional organisations and from the ATO, which is contained in *Instructions for auditors of SMSFs Auditing a self managed super fund – Questions and statements to consider when auditing a self managed super fund*.¹⁵²

Ref	Audit Procedure
A	ENGAGEMENT ACCEPTANCE
A.1	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit, including: <ul style="list-style-type: none">• Clearance from previous auditor on new engagements.• Confirmation of independence of the engagement partner and each audit team member.
A.2	Confirm that an engagement letter, that it is relevant to the scope of this audit, has been issued and signed by a trustee.

¹⁵² The ATO's compliance checklist (NAT 16308-08.2008) is available on the ATO's website at www.ato.gov.au/superprofessionals.

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Ref	Audit Procedure
B	AUDIT PLANNING
B.1	Obtain a copy of the following documents before commencing the audit: <ul style="list-style-type: none"> • Trust deed and amendments. • Signed financial report for the prior year. • Minutes of trustee meetings.
B.2	Prepare an audit strategy and audit plan for this engagement addressing, as a minimum, the following matters: <ul style="list-style-type: none"> • Client profile, audit and reporting arrangements. • Audit approach <ul style="list-style-type: none"> - Nature: <ul style="list-style-type: none"> ○ Controls testing, including use of service organisations' controls reports. ○ Substantive testing – inspection, observation, enquiry, confirmation, recalculation, reperformance and analytical review. - Timing. - Extent – fully substantive, sampling, analytical review or representations. - Resources, including extent of direction and supervision. <p>Consider interviewing the trustees and/or their advisors, reviewing the draft financial report and the minutes prior to and during the development of the audit plan.</p>
B.3	Complete a risk assessment and determine preliminary materiality levels, covering: <ul style="list-style-type: none"> • Risk assessment <ul style="list-style-type: none"> - Current period events. - Fraud risks. - Control environment. - Computer/IT environment. - Compliance environment. • Materiality <ul style="list-style-type: none"> - Financial audit - Compliance audit.

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Ref	Audit Procedure
B.4	<u>Regulatory matters</u> <ul style="list-style-type: none"> Confirm that the SMSF is a regulated superannuation fund and listed as an ATO regulated fund on the Australian Business Register www.abn.business.gov.au. Enquire of the trustee if there has been any correspondence or requests from the ATO and if so, the current status of such matters.
C	FINANCIAL REPORT AND DISCLOSURE
C.1	<u>Clerical accuracy and cross references</u> Check that: <ul style="list-style-type: none"> The financial report for an accumulation fund (or a defined benefits fund with an actuarial review at period end) includes an operating statement and statement of financial position. The financial report for a defined benefit fund (usually a fund paying a complying pension) includes a statement of changes in net assets and a statement of net assets. The table of contents or index agrees to the financial report, including the page numbers and content. The footnotes refer to the notes to the financial statements and do not mention compilation reports or “unaudited” information. The audit report is situated appropriately in the financial report so as not to suggest that the member’s statements or other information have been audited. Prior period comparatives agree to those from the prior year signed financial report. Additions in the financial report are correct. The notes to the financial statements cross-reference correctly to and from the financial report.
C.2	<u>Opening Balances</u> - new engagements <ul style="list-style-type: none"> Review the opening balances for reasonableness. Check that the bank account balance from the prior year financial report agrees with the bank statement at the beginning of the audit period. To verify the liabilities for accrued benefits in the prior year, confirm the member’s balances have increased by the expected amounts for the current period.

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Ref	Audit Procedure
C.3	<u>Accounting policies</u> <ul style="list-style-type: none"> • 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. • If the SMSF is a reporting entity, check that the financial report complies with AAS 25 and other Australian Accounting Standards. • Determine if there are any changes in the accounting policies applied in prior periods, and if so, check that these been appropriately disclosed in the accounting policy notes.
D	UNDERLYING ACCOUNTING RECORDS
D.1	Obtain a copy of the SMSF's trial balance and general ledger and agree the trial balance to the financial report and note any discrepancies.
D.2	Review the general ledger and identify material journal entries and other adjustments and review these to ensure that they are reasonable and consistent with the financial report.
E	CASH AND CASH EQUIVALENTS
E.1	Confirm ownership of the bank accounts from the bank statement to the SMSF for each bank account held.
E.2	Sight original bank statements and review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
E.3	Test large and unusual payments and receipts to ensure these are <i>bona fide</i> and correctly recorded and authorised.
E.4	Trace payments and receipts to bank statements and agree to the source documents.

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Ref	Audit Procedure
E.5	Review bank reconciliation at year end: <ul style="list-style-type: none"> • Following up and investigating large, unusual or recurring reconciling items. • Follow up uncleared deposits and unpresented cheques ensuring correct cut off. • Trace unpresented cheques to bank statement subsequent to year end.
E.6	Where banking activities are significant to the audit and you are unable to gain sufficient appropriate audit evidence (in the case of certain term deposits, passbooks or other accounts where regular statements are not issued): <ul style="list-style-type: none"> • Confirm the bank balance by way of a bank confirmation letter. • Seek explanations for any material differences. • Check for any debit balances, undisclosed liabilities and security for borrowings.
E.7	Ensure that cash investments are correctly classified as investments.
E.8	Agree undeposited cheques or cash to bank statements after period end. Obtain documentary evidence or confirmation from the trustee that the cash was received by the SMSF prior to period end.
F	INVESTMENTS
F.1	<u>General</u> An auditor should use professional judgement to determine what evidence is appropriate and the size of the sample to be verified for each investment.
F.2	<u>Foreign Currency Transactions</u> Check to ensure that all investments are recorded in Australian dollars and that if foreign currency transactions occur they are converted at the appropriate currency rates and accounted for correctly.

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Ref	Audit Procedure
F.3	<u>Managed Portfolios and Custodial Investments</u> <ul style="list-style-type: none"> • If the SMSF uses an investment manager or managers that have the authority to transact on behalf of the SMSF, obtain directly from each manager and/or custodian confirmation of the assets held at period end. • Check that the confirmation refers to the correct trustee and SMSF. • Obtain appropriate auditor's reports on the investment manager and/or custodian's controls over the services provided. Assess any modifications to the auditor's report and the evidence of operating effectiveness of relevant controls contained therein. • Verify the carrying value at period end with an independent source. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.
F.4	<u>Pooled Superannuation Trusts (PSTs)</u> <ul style="list-style-type: none"> • Sight original statement issued by the PST, or obtain a confirmation directly from the PST at period end. • Confirm that the investment is in the correct name. • Confirm the number of units and carrying value at period end, for investments at market value ensure that the unit price is the redemption price. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.
F.5	<u>Life Insurance Policies</u> <ul style="list-style-type: none"> • Sight the original life insurance policy and statement from the Life Office at period end. • Obtain direct third party confirmation of the market value of the product or an actuarial valuation at period end. Assess the reasonableness of the valuation based on the assumptions applied. • Confirm policy or product is in the correct name. • Agree transactions on the statement to premiums paid, bonuses or benefits received in the SMSF's records.
F.6	<u>Interest Bearing Investments</u> <ul style="list-style-type: none"> • Obtain bank confirmation letter, reconcile to cash balances and check classification. • 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 SMSF.

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F.7	<p><u>Fixed and Deferred Interest Securities</u></p> <ul style="list-style-type: none"> Complete the following for each fixed or deferred interest security including debentures and bonds held by the SMSF at the end of the period: <ul style="list-style-type: none"> Sight original certificates and confirm correct ownership, date of issue of the certificates and date of maturity of the investment. Agree the value of securities held at period end with quoted market prices. For bonds, either confirm the net market value at period end with the originator of the security or with published market prices. For unlisted non-transferable debentures, agree the net market value with the face value. Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that the investment is an asset of the Fund. Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes.
F.8	<p><u>Property</u></p> <ul style="list-style-type: none"> Complete property searches or view the original titles for all real estate investments owned by the SMSF. Check that each property is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. This may involve viewing a declaration of trust or similar documentation. Check that there are no registered encumbrances, or if so, the related liabilities are correctly reflected in the financial report. Review the accounting policies to determine how the trustee has valued each property. Generally, property investments will be carried at market value determined in line with ATO Superannuation Circular 2003/1.

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Ref	Audit Procedure
	<ul style="list-style-type: none"> • If the trustees have relied on an independent market appraisal or valuation, obtain a copy of this and confirm that: <ul style="list-style-type: none"> - The value is correctly reflected in the financial report. - The valuation/appraisal refers to the correct property. - The valuation was based on reasonable assumptions and is current. - The valuation takes into account redemption costs. - The value takes into account GST (if applicable). - If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal. - That the method used to value the property is consistent with that disclosed in the accounting policy notes. • If the trustees have not obtained an independent market appraisal or valuation, obtain documentary evidence of the valuation method, including that: <ul style="list-style-type: none"> - All relevant factors and considerations likely to affect the value of the asset are taken into account. - The valuation was undertaken in good faith. - The valuation was based on a rational process and reasonable assumptions. - The basis of the valuation is capable of explanation to a third party. - The valuation takes into account redemption costs. - The valuation takes into account GST (if applicable). - If the property has been subsequently sold, the sale price does not differ significantly from the valuation. - The method used to value the property is consistent with that disclosed in the accounting policy notes. • 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 in the market value and accounting policies.

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Ref	Audit Procedure
F.9	<p><u>Listed Securities</u></p> <p>Review the number of listed securities including shares, units, instalment receipts, 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"> • Agree the number of securities held at period end to the CHES statement issued at period year, the share or unit registry or other appropriate sources. • Check that each listed security is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. • Confirm the closing market price of the securities at the period end against an independent source. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes. • If the SMSF invested or redeemed listed securities during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.
F.10	<p><u>Unlisted Unit Trusts</u></p>
F.10.1	<p><u>Widely Held Trusts</u></p> <p>These are usually arm's length and professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices.</p> <ul style="list-style-type: none"> • Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: <ul style="list-style-type: none"> - The number of securities held at period end. - That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. - The closing price of the units at the period end. - The method used to value the investments is consistent with that disclosed in the accounting policy notes. - Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported. • If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.

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Ref	Audit Procedure
F.10.2	<p><u>Closely Held Trusts</u></p> <p>These are usually related trusts that require additional audit procedures to confirm ownership and value.</p> <ul style="list-style-type: none"> • Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree the following: <ul style="list-style-type: none"> - The number of units held at period end. - That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. • Identify the valuation method used and test the value by: <ul style="list-style-type: none"> - Assessing whether the method and valuation process were reasonable and the valuation is current. - Obtaining documentary evidence to support the valuation. - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes. • If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.
F.11	<p><u>Assets subject to Limited Recourse Debt/Instalment Warrant Arrangements</u></p> <ul style="list-style-type: none"> • If the asset is subject to an instalment warrant arrangement, determine how the investment has been valued, either net asset value or gross assets and liabilities, and confirm that this is consistent with that disclosed in the accounting policy notes. • Audit procedures should be undertaken (as outlined above) based on the type of arrangement.
F.12	<p><u>Other Investments (collectibles etc.)</u></p> <ul style="list-style-type: none"> • Verify adequate and valid insurance in place in name of the SMSF. • 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"> - Minutes or resolution relating to the acquisition of the asset. - Invoice and evidence of payment from the SMSF for the purchase of the asset. - Sighting asset. - Insurance policy or premium payment for insurance of the asset. - Lease documents, if leased to another party.

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Ref	Audit Procedure
	<ul style="list-style-type: none"> • If the trustee has relied on an independent valuation, obtain a copy of this and confirm that: <ul style="list-style-type: none"> - The valuation or appraisal refers to the correct SMSF. - The valuation refers to the correct period. - If the asset has been subsequently sold, that the sale price does not differ significantly from the valuation or appraisal. - That the method used to value the property is reasonable and consistent with that disclosed in the accounting policy notes. - The assumptions on which the valuation is based are reasonable and the valuation is current. • If the trustee has not obtained an independent valuation, obtain documentary evidence of the valuation method used, including that: <ul style="list-style-type: none"> - All relevant factors and considerations likely to affect the value of the asset have been taken into account. - The valuation was undertaken in good faith. - The valuation was based on a rational process and reasonable assumptions and the valuation is current. - The basis of the valuation is capable of explanation to a third party. - If the property has been subsequently sold, the sale price does not differ significantly from the valuation. - The method used to value the property is consistent with that disclosed in the accounting policy notes.
G	RECEIVABLES
G.1	If the SMSF uses accrual accounting, review each investment class and determine if the SMSF was entitled to receive income for the year and if this had been received or accrued at balance date.
G.2	Obtain details of other receivables and ensure that they are correctly accounted for.
G.3	Verify that the receivable is current and has been received by the SMSF subsequent to period end or that it will be received by the SMSF.
G.4	If the amount is receivable from a related party, check that the disclosures are appropriate.

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Ref	Audit Procedure
H	LIABILITIES
H.1	Review the value at which liabilities have been disclosed in the financial report and vouch to supporting documentation. Review the documentation and assess whether the amount and nature of the liabilities appears reasonable.
H.2	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
H.3	Review ageing of liabilities/payables and comment on any delay in payment.
H.4	Vouch prior year payables and accruals to payments during the year, or re-accrue or adjust against expense items.
H.5	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
H.6	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
I	ACCRUED AND VESTED BENEFITS
	<p>Note, that in most cases the vested benefits in a SMSF will equal the accrued benefits. However, these will differ if the SMSF is a defined benefit fund, in which case the actuary will need to value the liabilities in order to determine the accrued and vested benefits.</p> <p>If an accumulation fund is holding reserves, the accrued benefits will also differ from the vested benefits by the value of that those reserves.</p>

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Ref	Audit Procedure
I.1	<u>Accumulation Funds</u> <ul style="list-style-type: none"> • Determine if the net assets of the SMSF have been allocated between the members, if so, the vested benefits will generally agree to the accrued benefits. • Obtain listing of all members account balances and check that the total agrees with accrued benefits in the financial report. • Review the allocation of revenue, expenses, income tax, superannuation contribution surcharge and other items to members to ensure that they have been correctly apportioned. • Ensure that the disclosures in the financial report are appropriate and consistent with the member's entitlements. • Check that vested benefits do not exceed net assets.
I.2	<u>Defined Benefit Funds</u> <ul style="list-style-type: none"> • Obtain and review a copy of the most recent actuarial valuation for consistency with your understanding of the SMSF, member details and pension terms. • Ensure that the actuarial valuation is within the past three years and if for a year other than the current financial year, this has been disclosed correctly and the appropriate financial report prepared. • Check the values in the valuation with accrued and vested benefits in the financial report. • Check that accrued benefits do not exceed net assets.
J	RESERVES
J.1	Review the SMSF's documentation including the trust deed and trustee minutes to ensure that the reserve is permitted and recorded in accordance with trustee policy.
J.2	Review the movements in the reserve during the period to ensure that they are clerically accurate and in accordance with the trustee's policy.
J.3	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.

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Ref	Audit Procedure
K	INVESTMENT AND OTHER REVENUE
K.1	<u>Analytical Review</u> <ul style="list-style-type: none"> Calculate the SMSF's investment return as a percentage based on the net income as a proportion of average assets held by the SMSF over the period. Compare this to the prior year as well as average market performance for the period of the audit and confirm that the return is reasonable and not under or overstated.
K.2	<u>Interest Income</u> <ul style="list-style-type: none"> Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received.
K.3	<u>Changes in Net Market Value</u> <ul style="list-style-type: none"> Test the changes in net market value calculations including realised changes in net market value to ensure that they are correct.
K.4	<u>Dividends</u> <ul style="list-style-type: none"> Vouch dividends received to dividend slips, published dividend rates or registry details. Confirm the accounting treatment of franking credits (either on a net or gross basis) and ascertain accounting treatment is consistent with the details disclosed in the accounting policy notes.
K.5	<u>Trust Distributions</u> <ul style="list-style-type: none"> Vouch distributions received to distribution advice, ensuring that the discounted capital gains and other income have been correctly classified.
K.6	<u>Rental Income</u> <ul style="list-style-type: none"> Vouch rental income against agent's statements or other records and cash receipts, as appropriate. If the SMSF is complying with accounting standards, rental expenses should be deducted from rental income to provide net investment revenue.

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Ref	Audit Procedure
K.7	<u>Other Income</u> <ul style="list-style-type: none"> • If the SMSF receives other forms of income ensure that these are correctly calculated and disclosed. • Ensure income is classified correctly between investment and other income.
L	CONTRIBUTIONS AND TRANSFERS IN
L.1	<u>Concessional contributions</u> <ul style="list-style-type: none"> • Obtain confirmation of employer contributions (or, for related employers, obtain the employer's trial balance and general ledger to verify contributions). • Test that contributions have been allocated to the member for whom they were remitted. • For concessional contributions made by the member, obtain a copy of the section 290-170 <i>Notice of Intention to Deduct</i> and confirm the details are consistent with the accounting treatment.
L.2	<u>Non-concessional contributions</u> <ul style="list-style-type: none"> • Obtain confirmation from the members as to the personal non-concessional contributions made by them and test that they have been allocated to the member for whom they were received.
L.3	Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.
L.4	Vouch transfers in to supporting documentation ensuring that the transfers in are from a complying source and correctly recorded as taxed or untaxed.
L.5	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
M	EXPENSES
M.1	Perform an analytical review of expenses and assess for reasonableness against your knowledge of the SMSF and in comparison to the prior year's expenditure.
M.2	Vouch material items to invoices, ensuring the expenses are attributable to the SMSF or are apportioned correctly.

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Ref	Audit Procedure
M.3	Agree administration fees to the agreement with the administrator.
M.4	Agree management fees to the agreement with the investment manager.
N	BENEFITS PAID
N.1	<p><u>Lump Sums</u></p> <ul style="list-style-type: none"> • Obtain a listing of all benefits paid and reconcile benefits paid between general ledger and bank statement. • For each benefit paid, review documentation including correspondence to the members and rollover institutions and ensure that the benefit was duly authorised. • Confirm that each benefit was paid in accordance with the terms of the trust deed. • Where resignation or other benefits are based on an accumulation of contributions and earnings, test reasonableness of the benefit based on the number of years of membership, contribution amounts for the member, any earnings-related contributions by the associated employer, concessional and non-concessional contributions and your knowledge of the SMSF's earning rates and reasonableness of interim earning rate calculations. Agree member information to trust minutes and records. • For retirement or other defined benefits check calculation is in accordance with the trust deed and agree member's age, final average or highest average salary and years of service to payroll, personnel records or trust records. • For death benefits, sight death certificate and confirm if the benefit was paid in accordance with the trust deed and, if applicable, a binding death benefit nomination. • For a total and permanent disability benefit, sight the medical certification regarding the inability of the member to work again. • For a total and temporary permanent disability benefit, sight the medical certification regarding the temporary inability of the member to work.

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Ref	Audit Procedure
	<ul style="list-style-type: none"> For each benefit paid ensure that the PAYG obligations have been correctly calculated and remitted by the SMSF.
N.2	<u>Pension Payments</u> <ul style="list-style-type: none"> Sight documentation (member request and trustee minutes confirming member's request for pension) and trustee acknowledgement and agreement to pay pension.
	<ul style="list-style-type: none"> Review the terms of the pensions to ensure that the pensions have been calculated and paid in accordance with these terms. Trace pension payments to bank statements.
O	TAX
O.1	<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"> 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. Capital gains from the disposal of PSTs and insurance policies have been excluded from taxable income. Fee rebates and other income from PSTs have been excluded from taxable income. Income from assets used to pay current pensions is identified as not assessable and an actuarial certificate has been obtained to apportion the income, if required. The non-assessable pension income proportion has been correctly applied to income but not contributions. Cash bonuses (not rebates) received on life insurance policies are not included as taxable income. If the SMSF derives exempt income, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with section 8-1 of the ITAA 1997.

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Ref	Audit Procedure
	<ul style="list-style-type: none"> • If the SMSF pays a complying pension and assets are segregated, ensure that income is allocated correctly between assessable and non assessable components. • Franking credits from dividends are correctly adjusted. • Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly. • Foreign tax credits are correctly adjusted, note that foreign tax credits may only be claimed to the extent of tax payable on foreign income.
	<ul style="list-style-type: none"> • CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount. • Ensure CGT cost base adjustments required by section 104-70 of the ITAA 1997 (relating to differences between accounting and tax distributions from trusts) have been recorded and adjusted correctly.
	<ul style="list-style-type: none"> • Non arm's length income has been correctly identified and tax applied at the appropriate rate.
O.2	<p>If the SMSF applies AASB 112, check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report, including:</p> <ul style="list-style-type: none"> • Deferred tax assets arising from unrealised losses are after discounting. • Deferred tax assets arising from tax losses have only been brought to account where the trustee is confident that these will be recoverable in the future. • Proving the deferred tax assets and liabilities represent the tax effect of timing differences.
O.3	<p>If the SMSF is accounting for income tax in accordance with AASB 112, ensure that this is appropriate for the SMSF, especially if the SMSF is paying pensions.</p>
O.4	<p>If the SMSF does not adopt AASB 112 check that this departure from Accounting Standards is disclosed in the accounting policies notes.</p>

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Ref	Audit Procedure
O.5	Confirm that tax has been calculated for ordinary income at 15%, unless the SMSF has received a notice advising it is non-complying for taxation purposes.
O.6	Confirm that PAYG instalments and TFN credits paid by the SMSF during the period have been correctly identified and applied against the current tax liability.
P	GOING CONCERN
P.1	Review all circumstances, investments, transactions and other matters from the audit to assess if the SMSF is a going concern.
P.2	<u>Accumulation Funds</u> <ul style="list-style-type: none"> • Determine if the vested benefits exceed the net assets of the SMSF. • If there is a deficiency in vested benefits review any measures by the employer-sponsor or trustee to remediate the deficiency and consider whether a modification to the auditor's report is necessary.
P.3	<u>Defined Benefit Funds</u> <ul style="list-style-type: none"> • If the actuarial review discloses that the accrued benefits exceed the net assets of the SMSF: <ul style="list-style-type: none"> - Review the actuarial funding recommendations for reasonableness. - Ensure that the employer-sponsor and the trustees are taking remedial action. • If the actuarial review discloses that the vested benefits exceed the net assets of the SMSF: <ul style="list-style-type: none"> - Assess the adequacy of any immediate measures taken by the employer-sponsor or the trustees to cover the deficiency. - Consider a modification to the auditor's report.
Q	SUBSEQUENT EVENTS
Q.1	Identify any subsequent events which would affect the financial report of the current or future periods.
Q.2	Test receipts and payments after balance date to ensure correct cut off of contributions, benefits, income and expenses.
Q.3	Check for significant fluctuations in investment valuations after period end.

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Ref	Audit Procedure
R	OTHER AUDIT CONSIDERATIONS
R.1	If there have been any transactions with related parties, ensure that these matters have been appropriately addressed and reported in accordance with the accounting policies adopted by the SMSF.
R.2	Check whether material commitments and contingencies are properly disclosed by reviewing or obtaining: <ul style="list-style-type: none"> • Trustee minutes. • Solicitors' representations. • Trustees' representations. • Contracts with investment managers.
S	TRUSTEE REPRESENTATIONS
S.1	Obtain written representations from the trustee.
S.2	Evaluate that the representations appear reasonable and consistent with the other audit evidence and conclusions.
S.3	If necessary, seek corroborative evidence on trustee representations.
T	COMMUNICATIONS WITH TRUSTEES
	Check that all matters of governance interest, if any, arising from the audit are communicated to the trustees on a timely basis, including: <ul style="list-style-type: none"> • Uncorrected misstatements aggregated by the auditor during the audit that were determined by the trustees to be immaterial, both individually and in the aggregate, to the financial report taken as a whole.

APPENDIX 6

ILLUSTRATIVE EXAMPLES OF THREATS TO INDEPENDENCE IN A SELF MANAGED SUPERANNUATION FUND

The following table provides examples of some of the scenarios which practitioners may face when auditing SMSFs, the type of threats to independence the scenarios present and appropriate safeguards which may address those threats.¹⁵³

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
1. A sole practitioner prepares a SMSF's accounts and performs the financial and compliance audits.	X	X				No safeguards are available which would enable the practitioner to perform both the accounting and audit work, as this involves the auditor reviewing their own work. The auditor withdraws from either the accounting or audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.

¹⁵³ These examples are based on principles stated in APES 110 *Code of Ethics for Professional Accountants*.

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
2. A sole practitioner signs the auditor's report for a SMSF and uses staff to perform the financial and compliance audit work and to prepare the SMSF's accounts.	X	X			X	No safeguards are available which would enable the practitioner to sign the auditor's report as well as supervising the accounting work, as the practitioner is ultimately responsible for the accounting work and this amounts to reviewing their own work. The auditor withdraws from either the accounting or audit engagement.
3. A sole practitioner provides financial advice and audits the SMSF.	X	X	X			No safeguards are available which would enable the practitioner to perform both the financial advisory and audit work, as this involves the auditor in assessing the compliance implications of their own advice. The auditor withdraws from either the financial advisory or the audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
4. A two partner practice in which one partner prepares the SMSF's accounts and the other partner conducts the audit. Common staff work on both	X	X			X	Threats may be overcome by safeguards including removal of staff who prepare the accounts from the audit team, implementing policies and procedures prohibiting those in the firm who provide accounting

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
engagements.						services from making decisions on behalf of the SMSF, requiring source data and underlying assumptions to be generated by the SMSF, obtaining SMSF approval for any journal entries, obtaining the SMSF's acknowledgement of their responsibility for the accounting work performed by the firm and disclosing to the trustees the firm's involvement in both engagements.
5. A two partner practice where one partner provides financial advice to the SMSF and the other partner audits the SMSF and prepares the SMSF's accounts.	X	X	X			Threats may be overcome by applying safeguards which include each of the two partners performing one of the engagements, with appropriate segregation of the engagement teams, and the firm withdrawing from the third engagement. For example, if one partner conducts the financial advisory work, the second partner prepares the accounts and then the firm withdraws from the audit and segregates the staff working on the engagements which are retained. Additional safeguards may include: implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF and ensuring that the individual

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
						providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.
6. A firm prepares the SMSF's income tax return and also undertakes the audit of the SMSF.						Provision of taxation services to audit clients will not generally create threats to independence.
7. A sole practitioner audits numerous SMSFs but they are all administered by the same service provider who engages the auditor on behalf of the trustees. The sole practitioner is very reliant on fees generated by referrals from the service provider.	X				X	Safeguards include expanding the client base so that reliance on the administrator is reduced, declining to accept any further audits from the administrator, obtaining external quality reviews and ensuring that the practitioner has direct access to the trustees of each SMSF, so that matters arising during the audit may be communicated without fear of intimidation.
8. A member of the audit engagement team has a close or immediate relationship with the trustees of the SMSF. The auditor signing the audit opinion supervises the team member's work.				X		Safeguards include removing the audit member from the audit engagement team.

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Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
9. The auditor has provided accounting advice in relation to a material transaction of the SMSF which was then entered into on the basis of that advice.		X				Technical assistance on accounting principles and advice on accounting issues often form part of the normal audit process and may promote fair presentation of the financial report and may not create a threat to independence. However, in certain instances, the advice may have influenced the decision making of the SMSF and safeguards may include segregation of the partners and staff providing accounting advice from the audit team or withdrawal from the audit engagement.
10. One partner in a multi-partner practice has had the SMSF as an audit client for “years” and regularly socialises with the SMSF’s trustee.				X		The long and personal association with the trustee may compromise the partner’s objectivity. Safeguards include transferring the engagement to another partner within the firm or quality control review of the audit findings, including conclusions on significant matters arising in the audit by another partner prior to sign-off of the audit opinion.
11. A practitioner or firm providing administrative services to numerous SMSFs, outsources all of the SMSF audits to						The practitioner has implemented appropriate safeguards to avoid a self-review threat by referring the audit work to another auditor and it is the responsibility of that auditor to ensure that they are not

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Appendix 6

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
one approved auditor.						as reliant on the referrals from the practitioner as to create a self interest or intimidation threat.