

ASA 720
(September 2015)

Auditing Standard ASA 720

The Auditor's Responsibilities Relating to Other Information

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

Draft

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PREFACE

Reasons for Issuing ASA 720

The AUASB issues Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard represents the Australian equivalent of revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* (April 2015) and will replace the current ASA 720 issued by the AUASB in October 2009.

This Auditing Standard contains differences from the revised ISA 720, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 720 *The Auditor's Responsibilities Relating to Other Information* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

The following application and other explanatory material is additional to ISA 720:

- [Aus] Appendix 2 includes a decision tree for other information reporting.
- [Aus] Appendix 3 includes [Aus] Illustrations 1A-7A (inclusive) example auditor's reports (in respect of a single company and a group) that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 720.

AUDITING STANDARD ASA 720

The Auditor's Responsibilities Relating to Other Information

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Australian Standard on Auditing ~~deals~~ with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial report and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
2. This Auditing Standard is written in the context of an audit of a financial report by an independent auditor. Accordingly, the objectives of the auditor in this Auditing Standard are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of ASA 200.¹ The requirements in the Australian Auditing Standards are designed to enable the auditor to achieve the objectives specified in the Australian Auditing Standards, and thereby the overall objectives of the auditor. The auditor's opinion on the financial report does not cover the other information, nor does this Auditing Standard require the auditor to obtain audit evidence beyond that required to form an opinion on the financial report.
3. This Auditing Standard requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial report or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial report or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial report and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
4. This Auditing Standard may also assist the auditor in complying with relevant ethical requirements^{2*} that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.

¹ See ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.

² [Deleted by the AUASB. Refer Footnote *]

* Refer ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.

5. Other information may include amounts or other items that are intended to be the same as, to summarise, or to provide greater detail, about amounts or other items in the financial report, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.
6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
7. This Auditing Standard does not apply to:
 - (a) Preliminary announcements of financial information; or
 - (b) Securities offering documents, including prospectuses.
8. The auditor's responsibilities under this Auditing Standard do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
9. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this Auditing Standard.

Effective Date

10. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

11. The objectives of the auditor, having read the other information, are:
 - (a) To consider whether there is a material inconsistency between the other information and the financial report;
 - (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
 - (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
 - (d) To report in accordance with this Auditing Standard.

Definitions

12. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial report. An annual report contains or accompanies the financial report and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. (Ref: Para. A1–A5)
 - (b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: Para. A6–A7)

- (c) Other information – Financial or non-financial information (other than the financial report and the auditor's report thereon) included in an entity's annual report.
(Ref: Para. A8–A10)

Requirements

13. The auditor shall: (Ref: Para. A11–A22)
- (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);
 - (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and
 - (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this Auditing Standard. (Ref: Para. A22)

Reading and Considering the Other Information

14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24)
- (a) Consider whether there is a material inconsistency between the other information and the financial report. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial report) with such amounts or other items in the financial report; and (Ref: Para. A25–A29)
 - (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36)
15. While reading the other information in accordance with paragraph 14 of this Auditing Standard, the auditor shall remain alert for indications that the other information not related to the financial report or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:
(Ref: Para. A39–A43)
- (a) A material misstatement of the other information exists;
 - (b) A material misstatement of the financial report exists; or
 - (c) The auditor's understanding of the entity and its environment needs to be updated.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
 - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.
18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A44)
- (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii) of this Auditing Standard); or (Ref: Para. A45)
 - (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47)
19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:
- (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48)
 - (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)

Responding When a Material Misstatement in the Financial Report Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

20. If, as a result of performing the procedures in paragraphs 14–15 of this Auditing Standard, the auditor concludes that a material misstatement in the financial report exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other Australian Auditing Standards. (Ref: Para. A51)

Reporting

21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report: (Ref: Para. Aus A52.1)
- (a) For an audit of a financial report of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
 - (b) For an audit of a financial report of an entity other than a listed entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)
22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21 of this Auditing Standard, this section shall include: (Ref: Para. A53)
- (a) A statement that management is responsible for the other information;
 - (b) An identification of:
 - (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and

- (ii) For an audit of a financial report of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;
 - (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
 - (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this Auditing Standard; and
 - (e) When other information has been obtained prior to the date of the auditor's report, either:
 - (i) A statement that the auditor has nothing to report; or
 - (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.
23. When the auditor expresses a qualified or adverse opinion in accordance with ASA 705,³ the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e) of this Auditing Standard. (Ref: Para. A54–A58)

Reporting Prescribed by Law or Regulation

24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to Australian Auditing Standards only if the auditor's report includes, at a minimum: (Ref: Para. A59)
- (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;
 - (b) A description of the auditor's responsibilities with respect to the other information; and
 - (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

25. In addressing the requirements of ASA 230⁴ as it applies to this Auditing Standard, the auditor shall include in the audit documentation:
- (a) Documentation of the procedures performed under this Auditing Standard; and
 - (b) The final version of the other information on which the auditor has performed the work required under this Auditing Standard.

* * *

³ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

⁴ See ASA 230 *Audit Documentation*, paragraphs 8–11.

Application and Other Explanatory Material

Definitions

Annual Report (Ref: Para. 12(a))

- A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.
- A2. An annual report is typically prepared on an annual basis. However, when the financial report being audited is prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial report.
- A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial report (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:
- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
 - Chairman's statement.
 - Corporate governance statement.
 - Internal control and risk assessment reports.
- A4. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.
- A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as stand-alone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this Auditing Standard, include:
- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and superannuation industries.
 - Corporate social responsibility reports.
 - Sustainability reports.
 - Diversity and equal opportunity reports.
 - Product responsibility reports.
 - Labour practices and working conditions reports.
 - Human rights reports.

Misstatement of the Other Information (Ref: Para. 12(b))

- A6. When a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management could indicate that the other information is misleading.
- A7. The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgements about materiality under this Auditing Standard. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:
- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial report as such users may be expected to read the other information to provide context to the financial report.
 - Judgements about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
 - Judgements about materiality involve both qualitative and quantitative considerations. Accordingly, such judgements may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

Other Information (Ref: Para. 12(c))

- A8. Appendix 1 contains examples of amounts or other items that may be included in the other information.
- A9. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial report.⁵ As such disclosures are required by the applicable financial reporting framework, they form part of the financial report. Accordingly, they do not constitute other information for the purpose of this Auditing Standard.
- A10. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this Auditing Standard.

Obtaining the Other Information (Ref: Para. 13)

- A11. Determining the document(s) that is or comprises the annual report is often clear based on law, regulation or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together comprise the annual report, or may have committed to do so. In some cases, however, it may not be clear which document(s) is or comprises the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which document(s) is or comprises the annual report.
- A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is listed in more than one jurisdiction), consideration may need to be given as to whether one, or more

⁵ [Deleted by the AUASB].

than one of the “annual reports” form part of the other information. Law or regulation may provide further guidance in this respect.

- A13. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate with management or those charged with governance:
- The auditor’s expectations in relation to obtaining the final version of the annual report (including a combination of documents that together comprise the annual report) in a timely manner prior to the date of the auditor’s report such that the auditor can complete the procedures required by this Auditing Standard before the date of the auditor’s report, or if that is not possible, as soon as practicable and in any case prior to the entity’s issuance of such information.
 - The possible implications when the other information is obtained after the date of the auditor’s report.
- A14. The communications referred to in paragraph A13 may be particularly appropriate for example:
- In an initial audit engagement.
 - When there has been a change in management or those charged with governance.
 - When other information is expected to be obtained after the date of the auditor’s report.
- A15. Where those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the one that has been approved by those charged with governance for issuance.
- A16. In some cases, the entity’s annual report may be a single document to be released, in accordance with law or regulation or the entity’s reporting practice, shortly after the entity’s financial reporting period such that it is available to the auditor prior to the date of the auditor’s report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity’s choosing. There may also be circumstances when the entity’s annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.
- A17. There may be circumstances when, at the date of the auditor’s report, the entity is considering the development of a document that may be part of the entity’s annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose or timing of such a document. If the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered other information for purposes of this Auditing Standard.
- A18. Obtaining the other information in a timely manner prior to the date of the auditor’s report enables any revisions that are found to be necessary to be made to the financial report, the auditor’s report, or the other information prior to their issuance. The audit engagement letter⁶ may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor’s report.
- A19. When other information is only made available to users via the entity’s website, the version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the auditor would perform procedures in accordance with this Auditing Standard. The auditor has no responsibility under this Auditing Standard to search for other information, including other information that may be on the entity’s website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity’s website or otherwise has been appropriately transmitted or displayed electronically.

⁶ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph A23.

- A20. The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.
- A21. When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6 and 7 of ASA 560⁷
- A22. ASA 580⁸ establishes requirements and provides guidance on the use of written representations. The written representation required to be requested by paragraph 13(c) regarding other information that will be available only after the date of the auditor's report is intended to support the auditor's ability to complete the procedures required by this Auditing Standard with respect to such information. In addition, the auditor may find it useful to request other written representations, for example, that:
- Management has informed the auditor of all the documents that it expects to issue that may comprise other information;
 - The financial report and any other information obtained by the auditor prior to the date of the auditor's report is consistent with one another, and the other information does not contain any material misstatements; and
 - With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that management intends to prepare and issue such other information and the expected timing of such issuance.

Reading and Considering the Other Information (Ref: Para. 14–15)

- A23. The auditor is required by ASA 200⁹ to plan and perform the audit with professional scepticism. Maintaining professional scepticism when reading and considering the other information includes, for example, recognising that management may be overly optimistic about the success of its plans, and being alert to information that may be inconsistent with:
- (a) The financial report; or
 - (b) The auditor's knowledge obtained in the audit.
- A24. In accordance with ASA 220¹⁰ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this Auditing Standard, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:
- The relative experience of engagement team members.
 - Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
 - The degree of judgement involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial report may be carried out by less experienced engagement team members.
 - Whether, in the case of a group audit, it is necessary to make enquiries of a component auditor in addressing the other information related to that component.

⁷ See ASA 560 *Subsequent Events*.

⁸ See ASA 580 *Written Representations*.

⁹ See ASA 200, paragraph 15.

¹⁰ See ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 15(a).

Considering Whether There is a Material Inconsistency between the Other Information and the Financial Report (Ref: Para. 14(a))

- A25. Other information may include amounts or other items that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial report. Examples of such amounts or other items may include:
- Tables, charts or graphs containing extracts of the financial report.
 - A disclosure providing greater detail about a balance or account shown in the financial report, such as “Revenue for 20X1 comprised XXX million from product X and YYY million from product Y.”
 - Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1.”
- A26. In evaluating the consistency of selected amounts or other items in the other information with the financial report, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial report, with such amounts or other items in the financial report.
- A27. Selecting the amounts or other items to compare is a matter of professional judgement. Factors relevant to this judgement include:
- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount).
 - If quantitative, the relative size of the amount compared with accounts or items in the financial report or the other information to which they relate.
 - The sensitivity of the particular amount or other item in the other information, for example, share based payments for senior management.
- A28. Determining the nature and extent of procedures to address the requirement in paragraph 14(a) is a matter of professional judgement, recognising that the auditor's responsibilities under this Auditing Standard do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include:
- For information that is intended to be the same as information in the financial report, comparing the information to the financial report.
 - For information intended to convey the same meaning as disclosures in the financial report, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings.
 - Obtaining a reconciliation between an amount within the other information and the financial report from management and:
 - Comparing items in the reconciliation to the financial report and the other information; and
 - Checking whether the calculations within the reconciliation are arithmetically accurate.
- A29. Evaluating the consistency of selected amounts or other items in the other information with the financial report includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial report.

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

- A30. Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph 14(a)). Examples of such amounts or items may include:
- A disclosure of the units produced, or a table summarising such production by geographical region.
 - A statement that "The company introduced product X and product Y during the year."
 - A summary of the locations of the entity's major operations, such as "the entity's major centre of operation is in country X, and there are also operations in countries Y and Z."
- A31. The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with ASA 315¹¹. ASA 315 sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:
- (a) The relevant industry, regulatory, and other external factors;
 - (b) The nature of the entity;
 - (c) The entity's selection and application of accounting policies;
 - (d) The entity's objectives and strategies;
 - (e) The measurement and review of the entity's financial performance; and
 - (f) The entity's internal control.
- A32. The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.
- A33. In considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to that matter could be material.
- A34. In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached in the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor's recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.
- A35. The auditor may determine that referring to relevant audit documentation or making enquiries of relevant members of the engagement team or relevant component auditors is appropriate as

¹¹ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 11–12.

a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make enquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarised to support the auditor's recollection.

A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes enquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgement. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make enquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information.

Remaining Alert for Other Indications that the Other Information Appears to Be Materially Misstated (Ref: Para. 15)

- A37. Other information may include discussion of matters that are not related to the financial report and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.
- A38. Remaining alert for other indications that the other information not related to the financial report or the auditor's knowledge obtained in the audit appears to be materially misstated assists the auditor in complying with relevant ethical requirements that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a materially false or misleading statement, a statement furnished recklessly, or omits or obscures necessary information such that the other information is misleading.^{12*} Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as:
- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to be materially misstated; or
 - An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated (Ref: Para. 16)

- A39. The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgement.

¹² [Deleted by the AUASB. Refer footnote *]
* Refer ASA 102.

- A40. Conversely, the discussion with management may provide further information that supports the auditor's conclusion that a material misstatement of the other information exists.
- A41. It may be more difficult for the auditor to challenge management on matters of judgement than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial report or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial report, or the auditor's knowledge obtained in the audit.
- A42. As there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgement in the circumstances.
- A43. When a matter is unrelated to the financial report or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's enquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether or not a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:
- Obtaining advice from the auditor's legal counsel;
 - Considering the implications for the auditor's report for example, whether to describe the circumstances when there is a limitation imposed by management; or
 - Withdrawing from the audit, where withdrawal is possible under applicable law or regulation.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained prior to the Date of the Auditor's Report (Ref: Para. 18)

- A44. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgement. The auditor may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: Para. 18(a))

- A45. In rare circumstances, a disclaimer of opinion on the financial report may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

Withdrawal from the Engagement (Ref: Para. 18(b))

- A46. Withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

Considerations specific to public sector entities (Ref: Para. 18(b))

- A47. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions.

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 19)

- A48. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 17(a)) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.
- A49. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared requires the exercise of professional judgement, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.
- A50. When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared, when permitted by law or regulation, include, for example:
- Providing a new or amended auditor's report to management including a modified section in accordance with paragraph 22, and requesting management to provide this new or amended auditor's report to users for whom the auditor's report is prepared. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of the [ASAs-Australian Auditing Standards](#) or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users;
 - Bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared (for example, by addressing the matter in a general meeting of shareholders);
 - Communicating with a regulator or relevant professional body about the uncorrected material misstatement; or
 - Considering the implications for engagement continuance (see also paragraph A46).
- Aus A50.1 The auditor uses professional judgement in considering the appropriate actions, as suggested in paragraph A50, that they may take in circumstances where a material misstatement of the other information remains uncorrected. They may also consider obtaining legal advice as part of these considerations. In respect of audits performed under the Corporations Act 2001 (the Act), the auditor is required under the Act to notify the Australian Securities and

Investments Commission if the auditor becomes aware of certain circumstances specified in the Act, which would include an uncorrected material misstatement of the other information.

Responding When a Material Misstatement in the Financial Report Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)

A51. In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment and, accordingly, may indicate the need to revise the auditor's risk assessment¹³
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial report.¹⁴
- The auditor's responsibilities relating to subsequent events.¹⁵

Reporting (Ref: Para. 21–24)

A52. For an audit of a financial report of an entity other than a listed entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this Auditing Standard. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

Aus A52.1 Refer [Aus] Appendix 2 for a decision tree of other information reporting.

Illustrative Statements (Ref: Para. 21–22)

A53. Illustrative examples of the "Other Information" section of the auditor's report are included in [Aus] Appendix 3.

Reporting Implications When the Auditor's Opinion on the Financial Report Is Qualified or Adverse (Ref: Para. 23)

A54. A qualified or adverse auditor's opinion on the financial report may not have an impact on the statement required by paragraph 22(e) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial report because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this Auditing Standard. In other circumstances, there may be implications for such reporting as described in paragraphs A55–A58.

Qualified Opinion Due to a Material Misstatement in the Financial Report

A55. In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified opinion on the financial report.

¹³ See ASA 315, paragraphs 11, 31, and A1.

¹⁴ See ASA 450 *Evaluation of Misstatements Identified during the Audit*.

¹⁵ See ASA 560, paragraphs 10 and 14.

Qualified Opinion Due to Limitation of Scope

- A56. When there is a limitation of scope with respect to a material item in the financial report, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 22(e) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial report has been qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

- A57. An adverse opinion on the financial report relating to a specific matter(s) described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor's report in accordance with paragraph 22(e)(ii). When an adverse opinion has been expressed on the financial report, the auditor may need to appropriately modify the statement required by paragraph 22(e) for example, to indicate that amounts or items in the other information is materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial report.

Disclaimer of Opinion

- A58. When the auditor disclaims an opinion on the financial report, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial report as a whole. Accordingly, in those circumstances, as required by ASA 705 the auditor's report does not include a section addressing the reporting requirements under this Auditing Standard.

Reporting Prescribed by Law or Regulation (Ref: Para. 24)

- A59. ASA 200¹⁶ explains that the auditor may be required to comply with legal or regulatory requirements in addition to the Australian Auditing Standards. Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this Auditing Standard. Consistency in the auditor's report, when the audit has been conducted in accordance with Australian Auditing Standards, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this Auditing Standard relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 24 is included in the auditor's report, the auditor's report may refer to Australian Auditing Standards. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this Auditing Standard, even when the layout and wording used in the auditor's report is specified by legal or regulatory reporting requirements.

* * *

¹⁶ See ASA 200, paragraph A55.

Appendix 1

(Ref: Para. 14, A8)

Examples of Amounts or Other Items that May Be Included in the Other Information

The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.
- Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganisation expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios, such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial report.

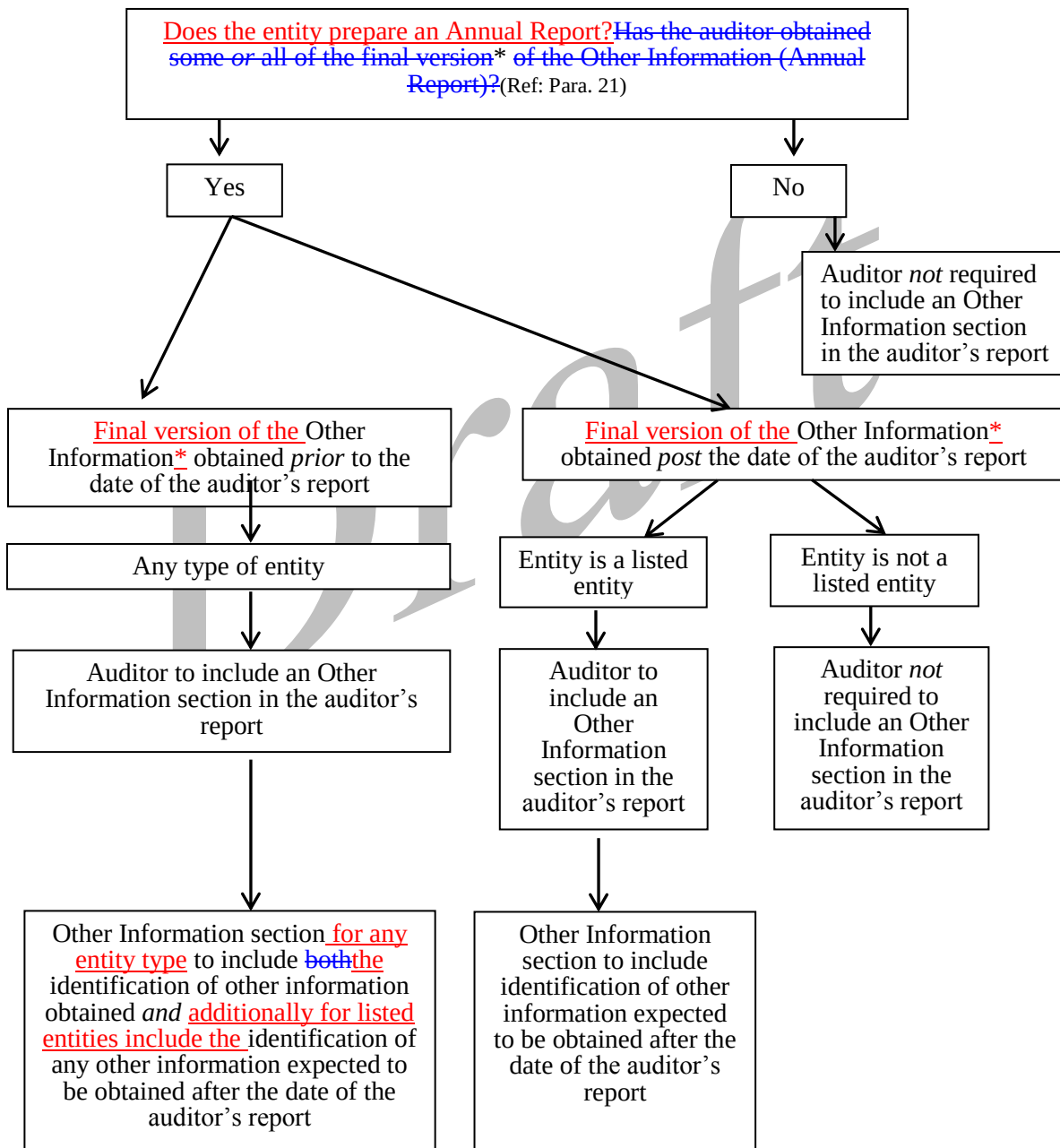
Other Items

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks, such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.
- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.

- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.

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DECISION TREE FOR OTHER INFORMATION REPORTING IN THE AUDITOR'S REPORT



* “Final version” of the Other Information (Annual Report) is that approved by those charged with governance (Ref: Para. 13(b), A15).

[Aus] Appendix 3

(Ref: Para. 21–22, A53)

Illustrations of Auditor's Reports Relating to Other Information

- Illustration 1: [Deleted by the AUASB. Refer [Aus] Illustration 1A]
- [Aus] Illustration 1A: An auditor's report of a listed company, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Illustration 2: [Deleted by the AUASB. Refer [Aus] Illustration 2A]
- [Aus] Illustration 2A: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: [Deleted by the AUASB. Refer [Aus] Illustration 4A]
- [Aus] Illustration 4A: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: [Deleted by the AUASB. Refer [Aus] Illustration 5A]
- [Aus] Illustration 5A: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: [Deleted by the AUASB. Refer [Aus] Illustration 6A]
- [Aus] Illustration 6A: An auditor's report of a listed company containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial report which also affects the other information.
- Illustration 7: [Deleted by the AUASB. Refer [Aus] Illustration 7A]
- [Aus] Illustration 7A: An auditor's report of a listed company containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial report also affects the other information.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion - all the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 1A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.[#]
- Key audit matters have been communicated in accordance with ASA 701.[†]
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company Ltd (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

See ASA 570 *Going Concern*.

† See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. The Key Audit Matters section is required for listed entities only.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion:

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.[#]

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the ~~information~~ included in the annual~~X~~ report for the year ended 30 June 20X1,[§] but does not include the financial report and our auditor's report thereon.]

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of audit opinion ~~assurance conclusion~~ thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[#] Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[§] ~~A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.~~

Responsibilities of the Directors' ~~Responsibilities~~ for the Financial Report

[Reporting in accordance with ASA 700[#] – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature][§]

[Name of Firm]

[Date of the auditor's report]

[Auditor's Address]

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[#]—See ASA 700 Forming an Opinion and Reporting on a Financial Report.

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion - part of the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 2A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- ~~• Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.~~
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company (the Company), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion[÷]

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the [auditor independence requirements of the Corporations Act 2001](#) and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the X report[#] (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and [accordingly](#) we do not and will not express any form of [audit opinion](#) ~~assurance conclusion~~ thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and *[describe actions applicable]**]

~~Directors'~~ Responsibilities of the Directors for the Financial Report[#]

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature][†]

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

* This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

[#] ~~Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.~~

[†] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Illustration 3 – An auditor's report of an entity other than a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a financial report of an entity other than a listed company using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is not prepared under the Corporations Act 2001.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- The auditor has no other reporting responsibilities required under law or regulation.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the declaration by those charged with governance.*

In our opinion, the accompanying financial report presents fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Entity as at 30 June 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

* Or other applicable assertion by management or those charged with governance.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

Management^{*} is responsible for the other information. The other information obtained at the date of this auditor's report is [information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon)].

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of ~~assurance conclusion~~ audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Report[†]

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

[Signature ~~in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction~~]-[§]

[Date of the auditor's report]

[Auditor's Address]

[Date]

^{*} Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[#] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

[†] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[§] The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion – No Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 4A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a financial report of a single listed company using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- ~~Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.~~
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company (the Company), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion[÷]

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the [information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon)]. The X report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of ~~assurance conclusion~~ audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and *[describe actions applicable]*].*

~~Directors'~~ Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature][#]

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

* This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

[#] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion – All Other Information obtained; material misstatement
(Fair Presentation Framework)

[Aus] Illustration 5A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- ~~Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.~~
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company (the Company), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies ~~and other explanatory information~~ and the directors' declaration.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion[÷]

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the [information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon.)]

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of ~~assurance conclusion~~ audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.

[Description of material misstatement of the other information]

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

[Description of each key audit matter in accordance with ASA 701.]

~~Directors'~~ Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

Draft

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity-*Corporations Act 2001*
Qualified opinion that affects the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 6A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a consolidated financial report of a listed company. The audit is a group audit (i.e., ASA 600 applies).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial report (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.
- ~~Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.~~
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Qualified Opinion

We have audited the financial report of ABC Company Ltd (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, consolidated statement of changes in equity and

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration of the Company.

In our opinion except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's consolidated financial position as at 30 June 20X1, and of its consolidated performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx in the consolidated statement of financial position as at 30 June 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at 30 June 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the [information included in the [X report],# (but does not include the financial report and our auditor's report thereon.)]

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of ~~assurance conclusion~~ audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC's investment in XYZ as at 30 June 20X1 and ABC's share of XYZ's net income for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Directors' Responsibilities for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Auditor's name and signature]*

[Date of the auditor's report]

[Auditor's address]

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity-Corporations Act 2001
Adverse opinion that affects the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 7A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a consolidated financial report of a listed company. The audit is a group audit (i.e., ASA 600 applies).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The financial report is materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial report. The effects of the misstatement on the financial report have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information.
- ~~Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.~~
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Adverse Opinion

We have audited the financial report of ABC Company Ltd. (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's consolidated financial position as at 30 June 20X1 and of its consolidated financial performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Australian Accounting Standards, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying financial report would have been materially affected. The effects on the financial report of the failure to consolidate have not been determined.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon.)

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of ~~assurance conclusion~~ audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated XYZ Company and accounted for the acquisition based on provisional amounts. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Directors' Responsibilities for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Auditor's name and signature][#]

[Date of the auditor's report]

[Auditor's address]

[#] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

ASA 720
(September 2015)

Auditing Standard ASA 720

The Auditor's Responsibilities Relating to Other Information

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

Draft

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PREFACE

Reasons for Issuing ASA 720

The AUASB issues Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard represents the Australian equivalent of revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* (April 2015) and will replace the current ASA 720 issued by the AUASB in October 2009.

This Auditing Standard contains differences from the revised ISA 720, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 720 *The Auditor's Responsibilities Relating to Other Information* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

The following application and other explanatory material is additional to ISA 720:

- [Aus] Appendix 2 includes a decision tree for other information reporting.
- [Aus] Appendix 3 includes [Aus] Illustrations 1A-7A (inclusive) example auditor's reports (in respect of a single company and a group) that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

Compliance with this Auditing Standard enables compliance with ISA 720.

AUDITING STANDARD ASA 720

The Auditor's Responsibilities Relating to Other Information

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Australian Standard on Auditing deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial report and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
2. This Auditing Standard is written in the context of an audit of a financial report by an independent auditor. Accordingly, the objectives of the auditor in this Auditing Standard are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of ASA 200.¹ The requirements in the Australian Auditing Standards are designed to enable the auditor to achieve the objectives specified in the Australian Auditing Standards, and thereby the overall objectives of the auditor. The auditor's opinion on the financial report does not cover the other information, nor does this Auditing Standard require the auditor to obtain audit evidence beyond that required to form an opinion on the financial report.
3. This Auditing Standard requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial report or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial report or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial report and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
4. This Auditing Standard may also assist the auditor in complying with relevant ethical requirements^{2*} that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.

¹ See ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.

² [Deleted by the AUASB. Refer Footnote *]

* Refer ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.

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5. Other information may include amounts or other items that are intended to be the same as, to summarise, or to provide greater detail, about amounts or other items in the financial report, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.
6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
7. This Auditing Standard does not apply to:
 - (a) Preliminary announcements of financial information; or
 - (b) Securities offering documents, including prospectuses.
8. The auditor's responsibilities under this Auditing Standard do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
9. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this Auditing Standard.

Effective Date

10. [Deleted by the AUASB. Refer Aus 0.3]

Objectives

11. The objectives of the auditor, having read the other information, are:
 - (a) To consider whether there is a material inconsistency between the other information and the financial report;
 - (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
 - (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
 - (d) To report in accordance with this Auditing Standard.

Definitions

12. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
 - (a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial report. An annual report contains or accompanies the financial report and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. (Ref: Para. A1–A5)
 - (b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: Para. A6–A7)

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- (c) Other information – Financial or non-financial information (other than the financial report and the auditor's report thereon) included in an entity's annual report.
 (Ref: Para. A8–A10)

Requirements

- 13. The auditor shall: (Ref: Para. A11–A22)
 - (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);
 - (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and
 - (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this Auditing Standard. (Ref: Para. A22)

Reading and Considering the Other Information

- 14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24)
 - (a) Consider whether there is a material inconsistency between the other information and the financial report. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial report) with such amounts or other items in the financial report; and (Ref: Para. A25–A29)
 - (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36)
- 15. While reading the other information in accordance with paragraph 14 of this Auditing Standard, the auditor shall remain alert for indications that the other information not related to the financial report or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

- 16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:
 (Ref: Para. A39–A43)
 - (a) A material misstatement of the other information exists;
 - (b) A material misstatement of the financial report exists; or
 - (c) The auditor's understanding of the entity and its environment needs to be updated.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

- 17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

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- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
 - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.
18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A44)
- (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii) of this Auditing Standard); or (Ref: Para. A45)
 - (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47)
19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:
- (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48)
 - (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)

Responding When a Material Misstatement in the Financial Report Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

20. If, as a result of performing the procedures in paragraphs 14–15 of this Auditing Standard, the auditor concludes that a material misstatement in the financial report exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other Australian Auditing Standards. (Ref: Para. A51)

Reporting

21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report: (Ref: Para. Aus A52.1)
- (a) For an audit of a financial report of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
 - (b) For an audit of a financial report of an entity other than a listed entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)
22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21 of this Auditing Standard, this section shall include: (Ref: Para. A53)
- (a) A statement that management is responsible for the other information;
 - (b) An identification of:
 - (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and

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- (ii) For an audit of a financial report of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;
 - (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
 - (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this Auditing Standard; and
 - (e) When other information has been obtained prior to the date of the auditor's report, either:
 - (i) A statement that the auditor has nothing to report; or
 - (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.
23. When the auditor expresses a qualified or adverse opinion in accordance with ASA 705,³ the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e) of this Auditing Standard. (Ref: Para. A54–A58)

Reporting Prescribed by Law or Regulation

24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to Australian Auditing Standards only if the auditor's report includes, at a minimum: (Ref: Para. A59)
- (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;
 - (b) A description of the auditor's responsibilities with respect to the other information; and
 - (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

25. In addressing the requirements of ASA 230⁴ as it applies to this Auditing Standard, the auditor shall include in the audit documentation:
- (a) Documentation of the procedures performed under this Auditing Standard; and
 - (b) The final version of the other information on which the auditor has performed the work required under this Auditing Standard.

* * *

³ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

⁴ See ASA 230 *Audit Documentation*, paragraphs 8–11.

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The Auditor's Responsibilities Relating to Other Information

Application and Other Explanatory Material

Definitions

Annual Report (Ref: Para. 12(a))

- A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.
- A2. An annual report is typically prepared on an annual basis. However, when the financial report being audited is prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial report.
- A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial report (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:
- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
 - Chairman's statement.
 - Corporate governance statement.
 - Internal control and risk assessment reports.
- A4. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.
- A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as stand-alone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this Auditing Standard, include:
- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and superannuation industries.
 - Corporate social responsibility reports.
 - Sustainability reports.
 - Diversity and equal opportunity reports.
 - Product responsibility reports.
 - Labour practices and working conditions reports.
 - Human rights reports.

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Misstatement of the Other Information (Ref: Para. 12(b))

- A6. When a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management could indicate that the other information is misleading.
- A7. The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgements about materiality under this Auditing Standard. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:
- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial report as such users may be expected to read the other information to provide context to the financial report.
 - Judgements about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
 - Judgements about materiality involve both qualitative and quantitative considerations. Accordingly, such judgements may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

Other Information (Ref: Para. 12(c))

- A8. Appendix 1 contains examples of amounts or other items that may be included in the other information.
- A9. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial report.⁵ As such disclosures are required by the applicable financial reporting framework, they form part of the financial report. Accordingly, they do not constitute other information for the purpose of this Auditing Standard.
- A10. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this Auditing Standard.

Obtaining the Other Information (Ref: Para. 13)

- A11. Determining the document(s) that is or comprises the annual report is often clear based on law, regulation or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together comprise the annual report, or may have committed to do so. In some cases, however, it may not be clear which document(s) is or comprises the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which document(s) is or comprises the annual report.
- A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is listed in more than one jurisdiction), consideration may need to be given as to whether one, or more

⁵ [Deleted by the AUASB].

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than one of the “annual reports” form part of the other information. Law or regulation may provide further guidance in this respect.

- A13. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate with management or those charged with governance:
- The auditor’s expectations in relation to obtaining the final version of the annual report (including a combination of documents that together comprise the annual report) in a timely manner prior to the date of the auditor’s report such that the auditor can complete the procedures required by this Auditing Standard before the date of the auditor’s report, or if that is not possible, as soon as practicable and in any case prior to the entity’s issuance of such information.
 - The possible implications when the other information is obtained after the date of the auditor’s report.
- A14. The communications referred to in paragraph A13 may be particularly appropriate for example:
- In an initial audit engagement.
 - When there has been a change in management or those charged with governance.
 - When other information is expected to be obtained after the date of the auditor’s report.
- A15. Where those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the one that has been approved by those charged with governance for issuance.
- A16. In some cases, the entity’s annual report may be a single document to be released, in accordance with law or regulation or the entity’s reporting practice, shortly after the entity’s financial reporting period such that it is available to the auditor prior to the date of the auditor’s report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity’s choosing. There may also be circumstances when the entity’s annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.
- A17. There may be circumstances when, at the date of the auditor’s report, the entity is considering the development of a document that may be part of the entity’s annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose or timing of such a document. If the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered other information for purposes of this Auditing Standard.
- A18. Obtaining the other information in a timely manner prior to the date of the auditor’s report enables any revisions that are found to be necessary to be made to the financial report, the auditor’s report, or the other information prior to their issuance. The audit engagement letter⁶ may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor’s report.
- A19. When other information is only made available to users via the entity’s website, the version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the auditor would perform procedures in accordance with this Auditing Standard. The auditor has no responsibility under this Auditing Standard to search for other information, including other information that may be on the entity’s website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity’s website or otherwise has been appropriately transmitted or displayed electronically.

⁶ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph A23.

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The Auditor's Responsibilities Relating to Other Information

- A20. The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.
- A21. When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6 and 7 of ASA 560⁷
- A22. ASA 580⁸ establishes requirements and provides guidance on the use of written representations. The written representation required to be requested by paragraph 13(c) regarding other information that will be available only after the date of the auditor's report is intended to support the auditor's ability to complete the procedures required by this Auditing Standard with respect to such information. In addition, the auditor may find it useful to request other written representations, for example, that:
- Management has informed the auditor of all the documents that it expects to issue that may comprise other information;
 - The financial report and any other information obtained by the auditor prior to the date of the auditor's report is consistent with one another, and the other information does not contain any material misstatements; and
 - With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that management intends to prepare and issue such other information and the expected timing of such issuance.

Reading and Considering the Other Information (Ref: Para. 14–15)

- A23. The auditor is required by ASA 200⁹ to plan and perform the audit with professional scepticism. Maintaining professional scepticism when reading and considering the other information includes, for example, recognising that management may be overly optimistic about the success of its plans, and being alert to information that may be inconsistent with:
- (a) The financial report; or
 - (b) The auditor's knowledge obtained in the audit.
- A24. In accordance with ASA 220¹⁰ the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this Auditing Standard, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:
- The relative experience of engagement team members.
 - Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
 - The degree of judgement involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial report may be carried out by less experienced engagement team members.
 - Whether, in the case of a group audit, it is necessary to make enquiries of a component auditor in addressing the other information related to that component.

⁷ See ASA 560 *Subsequent Events*.

⁸ See ASA 580 *Written Representations*.

⁹ See ASA 200, paragraph 15.

¹⁰ See ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*, paragraph 15(a).

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The Auditor's Responsibilities Relating to Other Information

Considering Whether There is a Material Inconsistency between the Other Information and the Financial Report (Ref: Para. 14(a))

- A25. Other information may include amounts or other items that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial report. Examples of such amounts or other items may include:
- Tables, charts or graphs containing extracts of the financial report.
 - A disclosure providing greater detail about a balance or account shown in the financial report, such as “Revenue for 20X1 comprised XXX million from product X and YYY million from product Y.”
 - Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1.”
- A26. In evaluating the consistency of selected amounts or other items in the other information with the financial report, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial report, with such amounts or other items in the financial report.
- A27. Selecting the amounts or other items to compare is a matter of professional judgement. Factors relevant to this judgement include:
- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount).
 - If quantitative, the relative size of the amount compared with accounts or items in the financial report or the other information to which they relate.
 - The sensitivity of the particular amount or other item in the other information, for example, share based payments for senior management.
- A28. Determining the nature and extent of procedures to address the requirement in paragraph 14(a) is a matter of professional judgement, recognising that the auditor's responsibilities under this Auditing Standard do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include:
- For information that is intended to be the same as information in the financial report, comparing the information to the financial report.
 - For information intended to convey the same meaning as disclosures in the financial report, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings.
 - Obtaining a reconciliation between an amount within the other information and the financial report from management and:
 - Comparing items in the reconciliation to the financial report and the other information; and
 - Checking whether the calculations within the reconciliation are arithmetically accurate.
- A29. Evaluating the consistency of selected amounts or other items in the other information with the financial report includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial report.

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The Auditor's Responsibilities Relating to Other Information

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

- A30. Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph 14(a)). Examples of such amounts or items may include:
- A disclosure of the units produced, or a table summarising such production by geographical region.
 - A statement that "The company introduced product X and product Y during the year."
 - A summary of the locations of the entity's major operations, such as "the entity's major centre of operation is in country X, and there are also operations in countries Y and Z."
- A31. The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with ASA 315¹¹. ASA 315 sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:
- (a) The relevant industry, regulatory, and other external factors;
 - (b) The nature of the entity;
 - (c) The entity's selection and application of accounting policies;
 - (d) The entity's objectives and strategies;
 - (e) The measurement and review of the entity's financial performance; and
 - (f) The entity's internal control.
- A32. The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.
- A33. In considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to that matter could be material.
- A34. In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached in the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor's recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.
- A35. The auditor may determine that referring to relevant audit documentation or making enquiries of relevant members of the engagement team or relevant component auditors is appropriate as

¹¹ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 11–12.

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a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make enquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarised to support the auditor's recollection.

A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes enquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgement. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make enquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information.

Remaining Alert for Other Indications that the Other Information Appears to Be Materially Misstated (Ref: Para. 15)

- A37. Other information may include discussion of matters that are not related to the financial report and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.
- A38. Remaining alert for other indications that the other information not related to the financial report or the auditor's knowledge obtained in the audit appears to be materially misstated assists the auditor in complying with relevant ethical requirements that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a materially false or misleading statement, a statement furnished recklessly, or omits or obscures necessary information such that the other information is misleading.^{12*} Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as:
- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to be materially misstated; or
 - An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated (Ref: Para. 16)

- A39. The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgement.

¹² [Deleted by the AUASB. Refer footnote *]
^{*} Refer ASA 102.

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- A40. Conversely, the discussion with management may provide further information that supports the auditor's conclusion that a material misstatement of the other information exists.
- A41. It may be more difficult for the auditor to challenge management on matters of judgement than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial report or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial report, or the auditor's knowledge obtained in the audit.
- A42. As there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgement in the circumstances.
- A43. When a matter is unrelated to the financial report or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's enquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether or not a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:
- Obtaining advice from the auditor's legal counsel;
 - Considering the implications for the auditor's report for example, whether to describe the circumstances when there is a limitation imposed by management; or
 - Withdrawing from the audit, where withdrawal is possible under applicable law or regulation.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained prior to the Date of the Auditor's Report (Ref: Para. 18)

- A44. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgement. The auditor may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: Para. 18(a))

- A45. In rare circumstances, a disclaimer of opinion on the financial report may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

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The Auditor's Responsibilities Relating to Other Information

Withdrawal from the Engagement (Ref: Para. 18(b))

- A46. Withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

Considerations specific to public sector entities (Ref: Para. 18(b))

- A47. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions.

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 19)

- A48. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 17(a)) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.
- A49. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared requires the exercise of professional judgement, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.
- A50. When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared, when permitted by law or regulation, include, for example:
- Providing a new or amended auditor's report to management including a modified section in accordance with paragraph 22, and requesting management to provide this new or amended auditor's report to users for whom the auditor's report is prepared. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of the Australian Auditing Standards or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users;
 - Bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared (for example, by addressing the matter in a general meeting of shareholders);
 - Communicating with a regulator or relevant professional body about the uncorrected material misstatement; or
 - Considering the implications for engagement continuance (see also paragraph A46).
- Aus A50.1 The auditor uses professional judgement in considering the appropriate actions, as suggested in paragraph A50, that they may take in circumstances where a material misstatement of the other information remains uncorrected. They may also consider obtaining legal advice as part of these considerations. In respect of audits performed under the *Corporations Act 2001* (the Act), the auditor is required under the Act to notify the Australian Securities and Investments Commission if the auditor becomes

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aware of certain circumstances specified in the Act, which would include an uncorrected material misstatement of the other information.

Responding When a Material Misstatement in the Financial Report Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)

A51. In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment and, accordingly, may indicate the need to revise the auditor's risk assessment¹³
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial report.¹⁴
- The auditor's responsibilities relating to subsequent events.¹⁵

Reporting (Ref: Para. 21–24)

A52. For an audit of a financial report of an entity other than a listed entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this Auditing Standard. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

Aus A52.1 Refer [Aus] Appendix 2 for a decision tree of other information reporting.

Illustrative Statements (Ref: Para. 21–22)

A53. Illustrative examples of the "Other Information" section of the auditor's report are included in [Aus] Appendix 3.

Reporting Implications When the Auditor's Opinion on the Financial Report Is Qualified or Adverse
 (Ref: Para. 23)

A54. A qualified or adverse auditor's opinion on the financial report may not have an impact on the statement required by paragraph 22(e) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial report because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this Auditing Standard. In other circumstances, there may be implications for such reporting as described in paragraphs A55–A58.

Qualified Opinion Due to a Material Misstatement in the Financial Report

A55. In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified opinion on the financial report.

Qualified Opinion Due to Limitation of Scope

A56. When there is a limitation of scope with respect to a material item in the financial report, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these

¹³ See ASA 315, paragraphs 11, 31, and A1.

¹⁴ See ASA 450 *Evaluation of Misstatements Identified during the Audit*.

¹⁵ See ASA 560, paragraphs 10 and 14.

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circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 22(e) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial report has been qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

- A57. An adverse opinion on the financial report relating to a specific matter(s) described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor's report in accordance with paragraph 22(e)(ii). When an adverse opinion has been expressed on the financial report, the auditor may need to appropriately modify the statement required by paragraph 22(e) for example, to indicate that amounts or items in the other information is materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial report.

Disclaimer of Opinion

- A58. When the auditor disclaims an opinion on the financial report, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial report as a whole. Accordingly, in those circumstances, as required by ASA 705 the auditor's report does not include a section addressing the reporting requirements under this Auditing Standard.

Reporting Prescribed by Law or Regulation (Ref: Para. 24)

- A59. ASA 200¹⁶ explains that the auditor may be required to comply with legal or regulatory requirements in addition to the Australian Auditing Standards. Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this Auditing Standard. Consistency in the auditor's report, when the audit has been conducted in accordance with Australian Auditing Standards, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this Auditing Standard relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 24 is included in the auditor's report, the auditor's report may refer to Australian Auditing Standards. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this Auditing Standard, even when the layout and wording used in the auditor's report is specified by legal or regulatory reporting requirements.

* * *

¹⁶ See ASA 200, paragraph A55.

Appendix 1

(Ref: Para. 14, A8)

Examples of Amounts or Other Items that May Be Included in the Other Information

The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.
- Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganisation expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios, such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial report.

Other Items

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks, such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.
- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.

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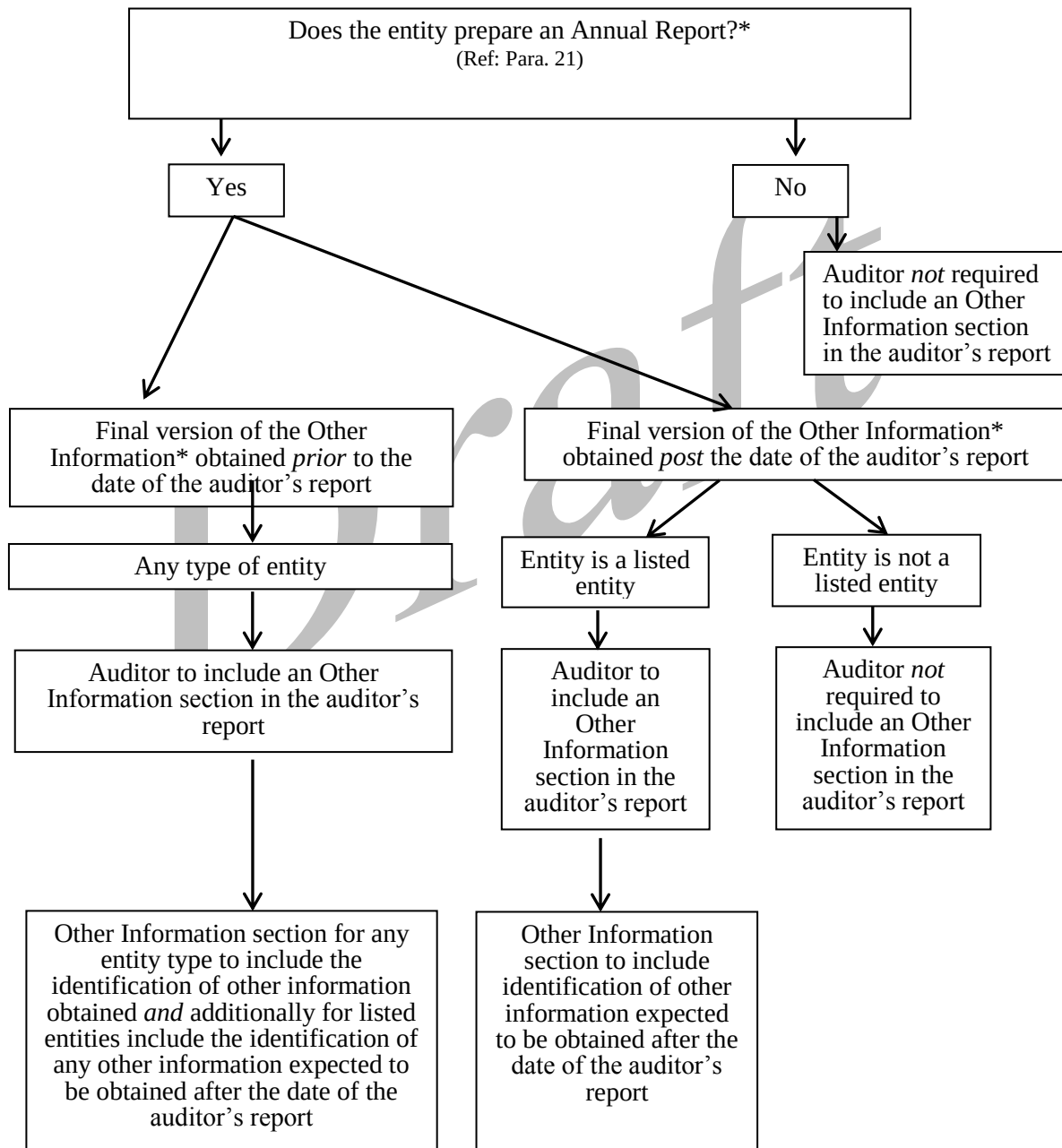
- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.

Draft

[Aus] Appendix 2

(Ref: Para. 21-22)

DECISION TREE FOR OTHER INFORMATION REPORTING IN THE AUDITOR'S REPORT



* “Final version” of the Other Information (Annual Report) is that approved by those charged with governance (Ref: Para. 13(b), A15).

[Aus] Appendix 3

(Ref: Para. 21–22, A53)

Illustrations of Auditor's Reports Relating to Other Information

- Illustration 1: [Deleted by the AUASB. Refer [Aus] Illustration 1A]
- [Aus] Illustration 1A: An auditor's report of a listed company, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Illustration 2: [Deleted by the AUASB. Refer [Aus] Illustration 2A]
- [Aus] Illustration 2A: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: [Deleted by the AUASB. Refer [Aus] Illustration 4A]
- [Aus] Illustration 4A: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: [Deleted by the AUASB. Refer [Aus] Illustration 5A]
- [Aus] Illustration 5A: An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: [Deleted by the AUASB. Refer [Aus] Illustration 6A]
- [Aus] Illustration 6A: An auditor's report of a listed company containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial report which also affects the other information.
- Illustration 7: [Deleted by the AUASB. Refer [Aus] Illustration 7A]
- [Aus] Illustration 7A: An auditor's report of a listed company containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial report also affects the other information.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion - all the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 1A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600* does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.#
- Key audit matters have been communicated in accordance with ASA 701.†
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company Ltd (the Company), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

* See ASA 600 *Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)*.

See ASA 570 *Going Concern*.

† See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. The Key Audit Matters section is required for listed entities only.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.[#]

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 20X1, but does not include the financial report and our auditor's report thereon.]

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[#] Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature][§]

[Name of Firm]

[Date of the auditor's report]

[Auditor's Address]

Draft

[§] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion - part of the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 2A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report^{*}

Opinion

We have audited the financial report of ABC Company (the Company), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and

^{*} The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the X report[#] (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and *[describe actions applicable]**]

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

* This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature][†]

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

Draft

[†] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Illustration 3 – An auditor's report of an entity other than a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a financial report of an entity other than a listed company using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ASA 570.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- The auditor has no other reporting responsibilities required under law or regulation.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Opinion

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the declaration by those charged with governance.*

In our opinion, the accompanying financial report presents fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Entity as at 30 June 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

* Or other applicable assertion by management or those charged with governance.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

Management^{*} is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon).

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Report[†]

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

[Signature][§]

[Date of the auditor's report]

[Auditor's Address]

^{*} Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[#] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

[†] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[§] The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Example Auditor's Report
Single Company-*Corporations Act 2001*
Unmodified opinion – No Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 4A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a financial report of a single listed company using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company (the Company), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

In our opinion the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon). The X report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we will not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and [*describe actions applicable*]].*

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature][#]

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

Draft

* This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Single Company-Corporations Act 2001
Unmodified opinion – All Other Information obtained; material misstatement
(Fair Presentation Framework)

[Aus] Illustration 5A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a single listed company's financial report. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Opinion

We have audited the financial report of ABC Company (the Company), which comprises the statement of financial position as at 30 June 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and the directors' declaration.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

In our opinion the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1, and of its performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon.)

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.

[Description of material misstatement of the other information]

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ASA 701.]

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

*[Auditor's name and signature]**

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

Draft

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity-Corporations Act 2001
Qualified opinion that affects the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 6A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a consolidated financial report of a listed company. The audit is a group audit (i.e., ASA 600 applies).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial report (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Qualified Opinion

We have audited the financial report of ABC Company Ltd (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration of the Company.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing Standard ASA 720

The Auditor's Responsibilities Relating to Other Information

In our opinion except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's consolidated financial position as at 30 June 20X1, and of its consolidated performance for the year then ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx in the consolidated statement of financial position as at 30 June 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at 30 June 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon.)

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC's investment in XYZ as at 30 June 20X1 and ABC's share of XYZ's net income for the year.

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Directors' Responsibilities for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

*[Auditor's name and signature]**

[Date of the auditor's report]

[Auditor's address]

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity-Corporations Act 2001
Adverse opinion that affects the Other Information obtained
(Fair Presentation Framework)

[Aus] Illustration 7A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a consolidated financial report of a listed company. The audit is a group audit (i.e., ASA 600 applies).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The financial report is materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial report. The effects of the misstatement on the financial report have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report*

Adverse Opinion

We have audited the financial report of ABC Company Ltd. (the Company), including its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company.

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's consolidated financial position as at 30 June 20X1 and of its consolidated financial performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Australian Accounting Standards, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying financial report would have been materially affected. The effects on the financial report of the failure to consolidate have not been determined.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if giving to the directors as at the time of this auditor's report.*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Information [or another title if appropriate, such as "Information Other than the Financial Report and Auditor's Report Thereon"]

The directors are responsible for the other information. The other information comprises the information included in the [X report],[#] (but does not include the financial report and our auditor's report thereon.)

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of audit opinion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated XYZ Company and accounted for the acquisition based on provisional amounts. We have concluded that the other information is materially misstated for the

* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

[#] A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

Auditing Standard ASA 720
The Auditor's Responsibilities Relating to Other Information

same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ASA 701.]

Directors' Responsibilities for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Auditor's name and signature][#]

[Date of the auditor's report]

[Auditor's address]

[#] The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

ASA 2015-2
(September 2015)

Auditing Standard ASA 2015-2 ***Amendments to Australian Auditing*** ***Standards***

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

Draft

DISCLAIMER

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



Australian Government

Auditing and Assurance Standards Board

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Draft

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PREFACE

Reasons for Issuing ASA 2015-2

The AUASB issues Auditing Standard ASA 2015-2 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard makes amendments to the following Auditing Standards:

ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (27 October 2009, as amended)
ASA 230	<i>Audit Documentation</i> (27 October 2009, as amended)
ASA 260	<i>Communication with Those Charged with Governance</i> (27 October 2009, as amended)
ASA 450	<i>Evaluation of Misstatements Identified during the Audit</i> (27 October 2009)
ASA 500	<i>Audit Evidence</i> (27 October 2009)
ASA 510	<i>Initial Audit Engagements-Opening Balances</i> (27 October 2009, as amended)
ASA 560	<i>Subsequent Events</i> (27 October 2009, as amended)
ASA 570	<i>Going Concern</i> (27 October 2009, as amended)
ASA 580	<i>Written Representations</i> (27 October 2009, as amended)
ASA 600	<i>Special Considerations-Audits of a Group Financial Report</i> (Including the Work of Component Auditors) (27 October 2009, as amended)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (27 October 2009, as amended)
ASA 701	<i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Proposed, issued as an Exposure Draft 01/15 on 30 April 2015)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (27 October 2009, as amended)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (27 October 2009, as amended)
ASA 710	<i>Comparative Information-Corresponding Figures and Comparative Financial Reports</i> (27 October 2009, as amended)
ASA 810	<i>Engagements to Report on Summary Financial Statements</i> (27 October 2009)

The amendments to the Australian Auditing Standards comprise consequential changes arising from the proposed revision of ASA 720 *The Auditor's Responsibilities Relating to Other Information* as well as changes the AUASB has identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met. The amendments to the Australian Auditing Standards arise from conforming amendments made by the International Auditing and Assurance Standards Board (IAASB) to ISA 720 *The Auditor's Responsibilities Relating to Other Information*. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2015-2 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Draft

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of existing Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*. These proposed amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

Compliance with the amended Australian Auditing Standards enables compliance with the amended ISAs.

Draft

AUDITING STANDARD ASA 2015-2

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards. The amendments to the Australian Auditing Standards comprise consequential changes arising from the proposed revision of ASA 720 *The Auditor's Responsibilities Relating to Other Information* as well as changes the AUASB has identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met.
5. This Auditing Standard uses underlining, striking out and other typographical material to identify the amendments to Auditing Standards, in order to make the amendments more understandable. Amendments made to text contained in footnotes are shown within the footnotes and underlining and striking out are also used to identify amendments. However, the amendments made by this Auditing Standard do not include that underlining, striking out or other typographical material.

Objective

6. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009, as amended)
 - (b) ASA 230 *Audit Documentation* (27 October 2009, as amended)
 - (c) ASA 260 *Communication with Those Charged with Governance* (27 October 2009, as amended)
 - (d) ASA 450 *Evaluation of Misstatements Identified during the Audit* (27 October 2009)
 - (e) ASA 500 *Audit Evidence* (27 October 2009)
 - (f) ASA 510 *Initial Audit Engagements-Opening Balances* (27 October 2009, as amended)
 - (g) ASA 560 *Subsequent Events* (27 October 2009, as amended)

- (h) ASA 570 *Going Concern* (27 October 2009, as amended)
- (i) ASA 580 *Written Representations* (27 October 2009, as amended)
- (j) ASA 600 *Special Considerations-Audits of a Group Financial Report* (Including the Work of Component Auditors) (27 October 2009, as amended)
- (k) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (27 October 2009, as amended)
- (l) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (Proposed, issued as an Exposure Draft 01/15 on 30 April 2015)
- (m) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (27 October 2009, as amended)
- (n) ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (27 October 2009, as amended)
- (o) ASA 710 *Comparative Information-Corresponding Figures and Comparative Financial Reports* (27 October 2009, as amended)
- (p) ASA 810 *Engagements to Report on Summary Financial Statements* (27 October 2009)

Definition

7. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

Amendments to ASA 210

8. The heading titled “Additional Information (Ref: Para. (b)(iii)(b))” is added after paragraph A19.
9. A new paragraph A20 is inserted as follows:
- Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information in accordance with ASA 720. When the auditor expects to obtain other information after the date of the auditor’s report, the terms of the audit engagement may also acknowledge the auditor’s responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor’s report.
10. As a result of the change made in paragraph 9 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.
11. Appendix 1 is amended to read as follows:
- ...
- [Insert appropriate reference to the expected form and content of the auditor’s report including, if applicable, the reporting on other information in accordance with ASA 720.]

Amendments to ASA 230

12. The Appendix is amended to read as follows:
- ...

- ASA 720, The Auditor's Responsibilities Relating to Other Information – paragraph 25

Amendments to ASA 260

13. Paragraph A14 is amended to read as follows:

...

- The documents comprising the other information (as defined in ASA 720) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

14. Paragraph A24 is amended to read as follows:

...

- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with ASA 720.

15. The following footnote, referenced to Paragraph A24 amendment listed at 14. above, is inserted as footnote 61:

- 61 See ASA 720, The Auditor's Responsibilities Relating to Other Information, paragraph 18(a).

16. Paragraph A27 is amended to read as follow:

Other significant matters arising ~~from~~ during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of ~~fact or material inconsistencies in information accompanying the audited financial report~~ the other information that have been corrected.

17. Appendix 1 is amended to read as follows:

This Appendix identifies paragraphs in ASQC 1 and other Australian Auditing Standards that require communication of specific matters with those charged with governance...

- ASA 720, The Auditor's Responsibilities Relating to Other Information – paragraphs 17–19.

Amendments to ASA 450

18. Paragraph Aus A1.1 is deleted.

~~The Australian Accounting Standards explain the role of materiality in making judgements in the preparation and presentation of financial reports by the entity.~~

19. The following footnote *, referenced to Paragraph Aus A1.1 amendment listed at 18. above, is deleted.

* ~~See AASB 1031 Materiality.~~

20. Paragraph A16 is amended to read as follows:

...

- Affects other information that will be communicated to be included in the entity's annual report documents containing the audited financial report (for example,

information to be included in a “Management Discussion and Analysis” or an “Operating and Financial Review”) that may reasonably be expected to influence the economic decisions of the users of the financial report. ASA 720 deals with the auditor’s responsibilities relating to consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial report.

21. The following footnote, referenced to Paragraph A16 amendment listed at 20. above, is amended as footnote 63:

63 See ASA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*.

Amendments to ASA 500

22. Paragraph 5(c) is amended to read as follows:

Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial report and other information obtained from other sources.

Amendments to ASA 510

23. The Appendix is amended to read as follows:

Illustration 1:

Circumstances described in paragraph A8(a) include the following:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR’S REPORT

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Illustration 2:

Circumstances described in paragraph A8(a) include the following:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

INDEPENDENT AUDITOR’S REPORT

...

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Amendments to ASA 560

24. Paragraph 1 is amended to read as follows:

This Australian Auditing Standard deals with the auditor's responsibilities relating to subsequent events in an audit of a financial report. It does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in ASA 720. However, such other information may bring to light a subsequent event that is within the scope of this Auditing Standard. (Ref: Para. A1)

25. The following footnote, referenced to Paragraph 1 amendment listed at 24. above, is amended as footnote 75:

75 See ASA 720, *The Auditor's Responsibilities Relating to Other Information*.

26. Paragraph Aus 12.1 is deleted.

~~For an audit engagement conducted under the Corporations Act 2001, management, and those charged with governance, are prohibited from restricting an amendments of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment.~~

27. Paragraph A1 is amended to read as follows:

When the audited financial report is included in other documents subsequent to the issuance of the financial report (other than annual reports that would be within the scope of ASA 720), the auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered.

...

28. Paragraph Aus A3.1 is deleted.

~~In some cases, law or regulation may identify the point in the financial reporting process at which the audit is expected to be complete.~~

29. The heading titled "Implications of Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 10)" is added after Paragraph A10.

30. New Paragraph A11 is inserted after existing Paragraph A10 as follows: (subsequent paragraph references are renumbered upwards by one)

While the auditor has no obligation to perform any audit procedures regarding the financial report after the date of the auditor's report but before the date the financial report is issued, ASA 720 contains requirements and guidance with respect to other information obtained after the date of the auditor's report, which might include other information obtained after the date of the auditor's report, but before the date the financial report is issued.

31. The heading titled "Implications of Other Information Received after the Financial Report Has Been Issued (Ref: Para. 14)" is added after paragraph A16.

32. New Paragraph A17 is inserted after existing paragraph A16 as follows: (subsequent paragraph references are renumbered upwards by one)

The auditor's obligations regarding other information received after the date of the auditor's report are addressed in ASA 720. While the auditor has no obligation to perform any audit procedures regarding the financial report after the financial report has been issued, ASA 720 contains requirements and guidance with respect to other information obtained after the date of the auditor's report.

33. The Conformity Statement section is updated to reflect there is no longer any conforming differences with the IAASB (requirement Paragraph Aus 12.1 having been deleted at 26. above)

The following requirement is additional to ASA 560:

~~For an audit engagement conducted under the Corporations Act 2001, management, and those charged with governance, are prohibited from restricting an amendments of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment. [Ref: Para. 12.1]~~

Amendments to ASA 570

34. Appendix 2 is amended to read as follows:

[Aus] Illustration 1A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

INDEPENDENT AUDITOR'S REPORT

...

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

[Aus] Illustration 2A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

[Aus] Illustration 3A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 7A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 7A would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

[Aus] Illustration 4A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor does not include an other information section in accordance with ASA 720.*

...

* Paragraph A55 of ASA 720, *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include an other information section when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

Amendments to ASA 580

35. Appendix 1 is amended to read as follows:

This appendix identifies paragraphs in other Australian Auditing Standards that require subject-matter specific written representations.

...

- ASA 720, *The Auditor's Responsibilities Relating to Other Information* – paragraph 13(c).

Amendments to ASA 600

36. Appendix 1 is amended to read as follows:

Circumstances include the following:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Amendments to ASA 700

37. The heading titled “Other Information” is added after paragraph 31.
38. New Paragraph 32 is inserted after existing Paragraph 31 as follows: (subsequent paragraph references are renumbered upwards by one)
- Where applicable, the auditor shall report in accordance with ASA 720.
39. Paragraph 50 is amended to read as follows: (subsequent sub-paragraph references are renumbered upwards by one)
- ...
- (i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ASA 720.
40. The following footnote, referenced to Paragraph 32 amendment listed at 38. above, is amended as footnote 92:
- ⁹². See ASA 720, paragraph 24.
41. The Appendix is amended to read as follows:

[Aus] Illustration 1A:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR’S REPORT

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor’s Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

[Aus] Illustration 2A:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor's Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

Illustration 3:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor's Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

Illustration 4:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor's Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

Amendments to ASA 701

42. Paragraph A38 is amended to read as follows:

ASA 720 defines the term annual report and explains that documents such as a management report, management commentary, or operating and financial review or similar reports by those charged with governance (e.g., a directors' report); a Chairman's statement; corporate governance statement; or internal control and risk assessment reports may form part of the annual report. ASA 720 addresses the auditor's responsibilities relating to other information included in the annual report. Although the auditor's opinion on the financial reports does not ~~cover extend to~~ the other information ~~addressed by ASA 720~~, the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.

43. The following footnote, referenced to Paragraph A38 amendment listed at 42. above, is amended as follows:

³⁰ See ASA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*, paragraphs 12(a) and A1-A3.

Amendments to ASA 705

44. Paragraph 29 is amended to read as follows:

Unless required by law or regulation, when the auditor disclaims an opinion on the financial report, the auditor's report shall not include a Key Audit Matters section in accordance with ASA 701 or an Other Information section in accordance with ASA 720. (Ref: Para. A26)

45. The following footnote, referenced to Paragraph 29 amendment listed at 44. above, is inserted as footnote 109 follows:

¹⁰⁹ See ASA 720 *The Auditor's Responsibilities Relating to Other Information*, paragraph A54.

46. Paragraph A26 is amended to read as follows:

...However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial report as a whole is more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial report as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with ASA 720 addressing the auditor's consideration of the consistency of the other information with the financial report. Accordingly, paragraph 29 of this Auditing Standard prohibits a Key Audit Matters section or an Other Information section from being included in the auditor's report when the auditor disclaims an opinion on the financial report, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

47. The Appendix is amended to read as follows:

[Aus] Illustration 1A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

[Aus] Illustration 2A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 7A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 7A would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

[Aus] Illustration 3A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Amendments to ASA 706

48. Paragraph 3 is amended to read as follows:

ASA 570 and ASA 720 establish requirements and provide guidance about communication in the auditor's report relating to going concern and other information, respectively.

49. The following footnote, referenced to Paragraph 3 amendment listed at 48. above, is inserted as footnote 119 follows:

¹¹⁹. See ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

50. Appendix 3 is amended to read as follows:

Illustration:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

51. Appendix 4 is amended to read as follows:

Illustration:

...

- The auditor has not obtained any other information prior to the date of the auditor's report.

...

Amendments to ASA 710

52. The Appendix is amended to read as follows:

Illustration 1:

...

- The auditor has not obtained any other information prior to the date of the auditor's report.

...

[Aus] Illustration 1A:

...

- The auditor has ~~not~~ obtained ~~no any~~ other information prior to the date of the auditor's report **but expects to obtain other information after the date of the auditor's report.**

...

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 4A in Appendix 3 of ASA 720.]

Illustration 2:

...

- The auditor has not obtained any other information prior to the date of the auditor’s report.

...

[Aus] Illustration 2A:

...

- The auditor has ~~not~~ obtained ~~no any~~ other information prior to the date of the auditor’s report ~~but expects to obtain other information after the date of the auditor’s report.~~

...

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 4A in Appendix 3 of ASA 720.]

Illustration 3:

...

- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR’S REPORT

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Illustration 4:

...

- The auditor has not obtained any other information prior to the date of the auditor’s report.

...

Amendments to ASA 810

53. Paragraph Aus 1.1 is deleted.

~~Auditors that are required to issue an auditor's report on a concise financial report prepared under the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports should refer to guidance contained in CS 001 Concise Financial Reports.~~

54. The following footnote, referenced to Paragraph Aus 1.1 amendment listed at 53. above, is deleted:

~~*—— Issued by the Auditing and Assurance Standards Board (December 2008).~~

55. Paragraph Aus 14.1 is deleted.

~~In circumstance where the auditor's report on the audited financial report has been modified, paragraphs 17-18 of this Auditing Standard require additional elements be included in the auditor's report on the summary financial statements.~~

56. Paragraph 24 is amended to read as follows:

The auditor shall read the other information included in a document containing the summary financial statements and related auditor's report to consider whether there is identify a material inconsistency between the other information and, if any, with the summary financial statements. If, ~~on reading the other information,~~ the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, ~~on reading the other information,~~ the auditor becomes aware of an apparent material misstatement of fact that the other information needs to be revised, the auditor shall discuss the matter with management. (Ref: Para. A19)

57. Paragraph Aus A18.1 is deleted.

~~ASA 700 contains requirements and guidance to be applied when unaudited supplementary information is presented with an audited financial report, which may be helpful in applying the requirement in paragraph 23.~~

58. Paragraph A18 is inserted as follows:

ASA 700 contains requirements and guidance to be applied when unaudited supplementary information is presented with an audited financial report that, applicable adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 23.

59. Footnote 9, previously referenced to Paragraph Aus A18.1 listed at 57. above, is re-located to the ASA 700 reference in Paragraph A18.

60. Paragraph Aus A19.1 is deleted.

~~ASA 720 contains requirements and guidance relating to reading other information included in a document containing the audited financial report and related auditor's report, and responding to material inconsistencies and material misstatements of fact. They may be helpful in applying the requirement in paragraph 24.~~

61. Paragraph A19 is inserted as follows:

ASA 720 contains requirements and guidance relating regarding the auditor's responsibilities relating to reading other information in a financial report audit engagement included in a document containing the audited financial report and related auditor's report, and responding to material inconsistencies and material misstatements of fact. Adapted Applicable as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.

62. Footnote 10, previously referenced to Paragraph Aus A19.1 listed at 61. above, is re-located to the ASA 720 reference in inserted Paragraph A19.

63. The following footnote, referenced to Paragraph A19 amendment listed at 61. above, is inserted as footnote 109 as follows:

^{109.} See ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*

64. The Conformity Statement section is updated to reflect there is no longer any conforming differences with the IAASB (requirement Paragraph Aus 14.1 having been deleted at 55. above)

The following requirement is additional to ASA 810:

~~In circumstance where the auditor's report on the audited financial report has been modified, paragraphs 17-18 of this Auditing Standard require additional elements be included in the auditor's report on the summary financial statements. [Ref: Para. 14.1]~~

ASA 2015-2
(August 2015)

Auditing Standard ASA 2015-2 ***Amendments to Australian Auditing*** ***Standards***

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

Draft

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Australian Government

Auditing and Assurance Standards Board

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Draft

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PREFACE

Reasons for Issuing ASA 2015-2

The AUASB issues Auditing Standard ASA 2015-2 *Amendments to Australian Auditing Standards* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard makes amendments to the following Auditing Standards:

ASA 210	<i>Agreeing the Terms of Audit Engagements</i> (27 October 2009, as amended)
ASA 230	<i>Audit Documentation</i> (27 October 2009, as amended)
ASA 260	<i>Communication with Those Charged with Governance</i> (27 October 2009, as amended)
ASA 450	<i>Evaluation of Misstatements Identified during the Audit</i> (27 October 2009)
ASA 500	<i>Audit Evidence</i> (27 October 2009)
ASA 510	<i>Initial Audit Engagements-Opening Balances</i> (27 October 2009, as amended)
ASA 560	<i>Subsequent Events</i> (27 October 2009, as amended)
ASA 570	<i>Going Concern</i> (27 October 2009, as amended)
ASA 580	<i>Written Representations</i> (27 October 2009, as amended)
ASA 600	<i>Special Considerations-Audits of a Group Financial Report</i> (Including the Work of Component Auditors) (27 October 2009, as amended)
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i> (27 October 2009, as amended)
ASA 701	<i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Proposed, issued as an Exposure Draft 01/15 on 30 April 2015)
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i> (27 October 2009, as amended)
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (27 October 2009, as amended)
ASA 710	<i>Comparative Information-Corresponding Figures and Comparative Financial Reports</i> (27 October 2009, as amended)
ASA 810	<i>Engagements to Report on Summary Financial Statements</i> (27 October 2009)

The amendments to the Australian Auditing Standards comprise consequential changes arising from the proposed revision of ASA 720 *The Auditor's Responsibilities Relating to Other Information* as well as changes the AUASB has identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met. The amendments to the Australian Auditing Standards arise from conforming amendments made by the International Auditing and Assurance Standards Board (IAASB) to ISA 720 *The Auditor's Responsibilities Relating to Other Information*. Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards.

Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 2015-2 *Amendments to Australian Auditing Standards* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

Draft

Conformity with International Standards on Auditing

This Auditing Standard has been made for Australian legislative purposes. It contains a series of proposed miscellaneous amendments to various Australian Auditing Standards (as shown) arising from the proposed revision of existing Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*. These proposed amendments, in the main, reflect similar amendments made to the equivalent International Standards on Auditing (ISAs).

Compliance with the amended Australian Auditing Standards enables compliance with the amended ISAs.

Draft

AUDITING STANDARD ASA 2015-2

Amendments to Australian Auditing Standards

Application

1. This Auditing Standard applies to:
 - an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - an audit of a financial report, or a complete set of financial statements, for any other purpose.
2. This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

3. This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

4. This Auditing Standard makes amendments to the Australian Auditing Standards. The amendments to the Australian Auditing Standards comprise consequential changes arising from the proposed revision of ASA 720 *The Auditor's Responsibilities Relating to Other Information* as well as changes the AUASB has identified through its review of existing modifications from the equivalent ISAs (i.e. "Aus" paragraphs) where the compelling reasons test has not been met.
5. This Auditing Standard uses underlining, striking out and other typographical material to identify the amendments to Auditing Standards, in order to make the amendments more understandable. Amendments made to text contained in footnotes are shown within the footnotes and underlining and striking out are also used to identify amendments. However, the amendments made by this Auditing Standard do not include that underlining, striking out or other typographical material.

Objective

6. The objective of this Auditing Standard is to make amendments to the following Auditing Standards:
 - (a) ASA 210 *Agreeing the Terms of Audit Engagements* (27 October 2009, as amended)
 - (b) ASA 230 *Audit Documentation* (27 October 2009, as amended)
 - (c) ASA 260 *Communication with Those Charged with Governance* (27 October 2009, as amended)
 - (d) ASA 450 *Evaluation of Misstatements Identified during the Audit* (27 October 2009)
 - (e) ASA 500 *Audit Evidence* (27 October 2009)
 - (f) ASA 510 *Initial Audit Engagements-Opening Balances* (27 October 2009, as amended)
 - (g) ASA 560 *Subsequent Events* (27 October 2009, as amended)

- (h) ASA 570 *Going Concern* (27 October 2009, as amended)
- (i) ASA 580 *Written Representations* (27 October 2009, as amended)
- (j) ASA 600 *Special Considerations-Audits of a Group Financial Report* (Including the Work of Component Auditors) (27 October 2009, as amended)
- (k) ASA 700 *Forming an Opinion and Reporting on a Financial Report* (27 October 2009, as amended)
- (l) ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* (Proposed, issued as an Exposure Draft 01/15 on 30 April 2015)
- (m) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (27 October 2009, as amended)
- (n) ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (27 October 2009, as amended)
- (o) ASA 710 *Comparative Information-Corresponding Figures and Comparative Financial Reports* (27 October 2009, as amended)
- (p) ASA 810 *Engagements to Report on Summary Financial Statements* (27 October 2009)

Definition

7. For the purposes of this Auditing Standard, the meanings of terms are set out in each Auditing Standard and in the *AUASB Glossary*. This Auditing Standard does not introduce new definitions.

Amendments to Auditing Standards

Amendments to ASA 210

8. The heading titled “Additional Information (Ref: Para. (b)(iii)(b))” is added after paragraph A19.
9. A new paragraph A20 is inserted as follows:
- Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information in accordance with ASA 720. When the auditor expects to obtain other information after the date of the auditor’s report, the terms of the audit engagement may also acknowledge the auditor’s responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor’s report.
10. As a result of the change made in paragraph 9 of this Auditing Standard, subsequent paragraph references are re-numbered and references to these paragraphs are updated accordingly.
11. Appendix 1 is amended to read as follows:
- ...
- [Insert appropriate reference to the expected form and content of the auditor’s report including, if applicable, the reporting on other information in accordance with ASA 720.]

Amendments to ASA 230

12. The Appendix is amended to read as follows:
- ...

- ASA 720, The Auditor's Responsibilities Relating to Other Information – paragraph 25

Amendments to ASA 260

13. Paragraph A14 is amended to read as follows:

...

- The documents comprising the other information (as defined in ASA 720) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

14. Paragraph A24 is amended to read as follows:

...

- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with ASA 720.

15. The following footnote, referenced to Paragraph A24 amendment listed at 14. above, is inserted as footnote 61:

- 61 See ASA 720, The Auditor's Responsibilities Relating to Other Information, paragraph 18(a).

16. Paragraph A27 is amended to read as follow:

Other significant matters arising ~~from~~ during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of ~~fact or material inconsistencies in information accompanying the audited financial report~~ the other information that have been corrected.

17. Appendix 1 is amended to read as follows:

This Appendix identifies paragraphs in ASQC 1 and other Australian Auditing Standards that require communication of specific matters with those charged with governance...

- ASA 720, The Auditor's Responsibilities Relating to Other Information – paragraphs 17–19.

Amendments to ASA 450

18. Paragraph Aus A1.1 is deleted.

~~The Australian Accounting Standards explain the role of materiality in making judgements in the preparation and presentation of financial reports by the entity.~~

19. The following footnote *, referenced to Paragraph Aus A1.1 amendment listed at 18. above, is deleted.

* ~~See AASB 1031 Materiality.~~

20. Paragraph A16 is amended to read as follows:

...

- Affects other information that will be communicated to be included in the entity's annual report documents containing the audited financial report (for example,

information to be included in a “Management Discussion and Analysis” or an “Operating and Financial Review”) that may reasonably be expected to influence the economic decisions of the users of the financial report. ASA 720 deals with the auditor’s responsibilities relating to consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial report.

21. The following footnote, referenced to Paragraph A16 amendment listed at 20. above, is amended as footnote 63:

63 See ASA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*.

Amendments to ASA 500

22. Paragraph 5(c) is amended to read as follows:

Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial report and other information obtained from other sources.

Amendments to ASA 510

23. The Appendix is amended to read as follows:

Illustration 1:

Circumstances described in paragraph A8(a) include the following:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR’S REPORT

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Illustration 2:

Circumstances described in paragraph A8(a) include the following:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

INDEPENDENT AUDITOR’S REPORT

...

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Amendments to ASA 560

24. Paragraph 1 is amended to read as follows:

This Australian Auditing Standard deals with the auditor's responsibilities relating to subsequent events in an audit of a financial report. It does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in ASA 720. However, such other information may bring to light a subsequent event that is within the scope of this Auditing Standard. (Ref: Para. A1)

25. The following footnote, referenced to Paragraph 1 amendment listed at 24. above, is amended as footnote 75:

75 See ASA 720, *The Auditor's Responsibilities Relating to Other Information*.

26. Paragraph Aus 12.1 is deleted.

~~For an audit engagement conducted under the Corporations Act 2001, management, and those charged with governance, are prohibited from restricting an amendments of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment.~~

27. Paragraph A1 is amended to read as follows:

When the audited financial report is included in other documents subsequent to the issuance of the financial report (other than annual reports that would be within the scope of ASA 720), the auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered.

...

28. Paragraph Aus A3.1 is deleted.

~~In some cases, law or regulation may identify the point in the financial reporting process at which the audit is expected to be complete.~~

29. The heading titled "Implications of Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 10)" is added after Paragraph A10.

30. New Paragraph A11 is inserted after existing Paragraph A10 as follows: (subsequent paragraph references are renumbered upwards by one)

While the auditor has no obligation to perform any audit procedures regarding the financial report after the date of the auditor's report but before the date the financial report is issued, ASA 720 contains requirements and guidance with respect to other information obtained after the date of the auditor's report, which might include other information obtained after the date of the auditor's report, but before the date the financial report is issued.

31. The heading titled "Implications of Other Information Received after the Financial Report Has Been Issued (Ref: Para. 14)" is added after paragraph A16.

32. New Paragraph A17 is inserted after existing paragraph A16 as follows: (subsequent paragraph references are renumbered upwards by one)

The auditor's obligations regarding other information received after the date of the auditor's report are addressed in ASA 720. While the auditor has no obligation to perform any audit procedures regarding the financial report after the financial report has been issued, ASA 720 contains requirements and guidance with respect to other information obtained after the date of the auditor's report.

33. The Conformity Statement section is updated to reflect there is no longer any conforming differences with the IAASB (requirement Paragraph Aus 12.1 having been deleted at 26. above)

The following requirement is additional to ASA 560:

~~For an audit engagement conducted under the Corporations Act 2001, management, and those charged with governance, are prohibited from restricting an amendments of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment.~~

Amendments to ASA 570

34. Appendix 2 is amended to read as follows:

[Aus] Illustration 1A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

INDEPENDENT AUDITOR'S REPORT

...

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

[Aus] Illustration 2A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

[Aus] Illustration 3A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 7A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 7A would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

[Aus] Illustration 4A

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor does not include an other information section in accordance with ASA 720.*

...

*

Paragraph A55 of ASA 720, *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include an other information section when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

Amendments to ASA 580

35. Appendix 1 is amended to read as follows:

This appendix identifies paragraphs in other Australian Auditing Standards that require subject-matter specific written representations.

...

- ASA 720, *The Auditor's Responsibilities Relating to Other Information* – paragraph 13(c).

Amendments to ASA 600

36. Appendix 1 is amended to read as follows:

Circumstances include the following:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Amendments to ASA 700

37. The heading titled “Other Information” is added after paragraph 31.
38. New Paragraph 32 is inserted after existing Paragraph 31 as follows: (subsequent paragraph references are renumbered upwards by one)
- Where applicable, the auditor shall report in accordance with ASA 720.
39. Paragraph 50 is amended to read as follows: (subsequent sub-paragraph references are renumbered upwards by one)
- ...
- (i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ASA 720.
40. The following footnote, referenced to Paragraph 32 amendment listed at 38. above, is amended as footnote 92:
- ⁹². See ASA 720, paragraph 24.
41. The Appendix is amended to read as follows:

[Aus] Illustration 1A:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR’S REPORT

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor’s Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

[Aus] Illustration 2A:

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor's Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

Illustration 3:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor's Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

Illustration 4:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Auditor's Responsibilities for the Audit of the Financial Report

...

Paragraph ~~4041~~(b)...Paragraph ~~4041~~(c)

Amendments to ASA 701

42. Paragraph A38 is amended to read as follows:

ASA 720 defines the term annual report and explains that documents such as a management report, management commentary, or operating and financial review or similar reports by those charged with governance (e.g., a directors' report); a Chairman's statement; corporate governance statement; or internal control and risk assessment reports may form part of the annual report. ASA 720 addresses the auditor's responsibilities relating to other information included in the annual report. Although the auditor's opinion on the financial reports does not ~~cover extend to~~ the other information ~~addressed by ASA 720~~, the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.

43. The following footnote, referenced to Paragraph A38 amendment listed at 42. above, is amended as follows:

³⁰ See ASA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*, paragraphs 12(a) and A1-A3.

Amendments to ASA 705

44. Paragraph 29 is amended to read as follows:

Unless required by law or regulation, when the auditor disclaims an opinion on the financial report, the auditor's report shall not include a Key Audit Matters section in accordance with ASA 701 or an Other Information section in accordance with ASA 720. (Ref: Para. A26)

45. The following footnote, referenced to Paragraph 29 amendment listed at 44. above, is inserted as footnote 109 follows:

¹⁰⁹ See ASA 720 *The Auditor's Responsibilities Relating to Other Information*, paragraph A54.

46. Paragraph A26 is amended to read as follows:

...However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial report as a whole is more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial report as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with ASA 720 addressing the auditor's consideration of the consistency of the other information with the financial report. Accordingly, paragraph 29 of this Auditing Standard prohibits a Key Audit Matters section or an Other Information section from being included in the auditor's report when the auditor disclaims an opinion on the financial report, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

47. The Appendix is amended to read as follows:

[Aus] Illustration 1A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

[Aus] Illustration 2A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 7A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 7A would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.]

[Aus] Illustration 3A:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.

...

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Amendments to ASA 706

48. Paragraph 3 is amended to read as follows:

ASA 570 and ASA 720 establish requirements and provide guidance about communication in the auditor's report relating to going concern and other information, respectively.

49. The following footnote, referenced to Paragraph 3 amendment listed at 48. above, is inserted as footnote 119 follows:

¹¹⁹. See ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

50. Appendix 3 is amended to read as follows:

Illustration:

For purposes of this illustrative auditor's report, the following circumstances are assumed:

...

- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

INDEPENDENT AUDITOR'S REPORT

Other Information [or another title if appropriate such as "Information Other than the Financial Report and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

51. Appendix 4 is amended to read as follows:

Illustration:

...

- The auditor has not obtained any other information prior to the date of the auditor's report.

...

Amendments to ASA 710

52. The Appendix is amended to read as follows:

Illustration 1:

...

- The auditor has not obtained any other information prior to the date of the auditor's report.

...

[Aus] Illustration 1A:

...

- The auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.

...

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 4A in Appendix 3 of ASA 720.]

Illustration 2:

...

- The auditor has not obtained any other information prior to the date of the auditor’s report.

...

[Aus] Illustration 2A:

...

- The auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.

...

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 4A in Appendix 3 of ASA 720.]

Illustration 3:

...

- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

...

INDEPENDENT AUDITOR’S REPORT

Other Information [or another title if appropriate such as “Information Other than the Financial Report and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 1A in Appendix 3 of ASA 720.]

Illustration 4:

...

- The auditor has not obtained any other information prior to the date of the auditor’s report.

...

Amendments to ASA 810

53. Paragraph Aus 1.1 is deleted.

~~Auditors that are required to issue an auditor's report on a concise financial report prepared under the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports should refer to guidance contained in GS 001 Concise Financial Reports.~~

54. The following footnote, referenced to Paragraph Aus 1.1 amendment listed at 53. above, is deleted:

~~*—— Issued by the Auditing and Assurance Standards Board (December 2008).~~

55. Paragraph Aus 14.1 is deleted.

~~In circumstance where the auditor's report on the audited financial report has been modified, paragraphs 17-18 of this Auditing Standard require additional elements be included in the auditor's report on the summary financial statements.~~

56. Paragraph 24 is amended to read as follows:

The auditor shall read the other information included in a document containing the summary financial statements and related auditor's report to consider whether there is identify a material inconsistency between the other information and, if any, with the summary financial statements. If, ~~on reading the other information,~~ the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, ~~on reading the other information,~~ the auditor becomes aware of an apparent material misstatement of fact that the other information needs to be revised, the auditor shall discuss the matter with management. (Ref: Para. A19)

57. Paragraph Aus A18.1 is deleted.

~~ASA 700 contains requirements and guidance to be applied when unaudited supplementary information is presented with an audited financial report, which may be helpful in applying the requirement in paragraph 23.~~

58. Paragraph A18 is inserted as follows:

ASA 700 contains requirements and guidance to be applied when unaudited supplementary information is presented with an audited financial report that, applicable adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 23.

59. Footnote 9, previously referenced to Paragraph Aus A18.1 listed at 57. above, is re-located to the ASA 700 reference in Paragraph A18.

60. Paragraph Aus A19.1 is deleted.

~~ASA 720 contains requirements and guidance relating to reading other information included in a document containing the audited financial report and related auditor's report, and responding to material inconsistencies and material misstatements of fact. They may be helpful in applying the requirement in paragraph 24.~~

61. Paragraph A19 is inserted as follows:

ASA 720 contains requirements and guidance relating regarding the auditor's responsibilities relating to reading other information in a financial report audit engagement included in a document containing the audited financial report and related auditor's report, and responding to material inconsistencies and material misstatements of fact. Adapted Applicable as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.

62. Footnote 10, previously referenced to Paragraph Aus A19.1 listed at 61. above, is re-located to the ASA 720 reference in inserted Paragraph A19.

63. The following footnote, referenced to Paragraph A19 amendment listed at 61. above, is inserted as footnote 109 as follows:

^{109.} See ASA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report*

64. The Conformity Statement section is updated to reflect there is no longer any conforming differences with the IAASB (requirement Paragraph Aus 14.1 having been deleted at 55. above)

The following requirement is additional to ASA 810:

~~In circumstance where the auditor's report on the audited financial report has been modified, paragraphs 17-18 of this Auditing Standard require additional elements be included in the auditor's report on the summary financial statements. [Ref: Para. 14.1]~~



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4**

Meeting Date: 15 September 2015

Subject: *ASA 720 The Auditor's Responsibilities Relating to Other Information*

Date Prepared: 1 September 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

1. To present constituents' submissions on ED 02/15 and the ATG's proposed dispositions thereof.
2. To present proposed Auditing Standards for the AUASB's approval.

Background

1. Exposure draft ED 02/15 was issued 12 June 2015 for a 60 day period ended 10 August 2015. The ED comprised an explanatory memorandum and 2 proposed Auditing Standards including an amending standard dealing with conforming amendments.
2. The AUASB received comprehensive submissions from seven constituents.
3. Agenda Items 4.1 respond to the submissions with proposed dispositions of matters raised.
4. Agenda Items 4.2 to 4.5 are the clean and marked up versions of the proposed standards which incorporate changes made in response to constituents' submissions.

Matters to Consider

Part A – General

1. The AUASB is asked to consider:
 - (a) The proposed disposition of issues raised by constituents through the public exposure [Agenda Items 4.1]; and
 - (b) The proposed Auditing Standards [Agenda Items 4.2 to 4.5].
2. The AUASB is asked to give approval to the following proposed Auditing Standards:
 - ASAs 720 and related conforming amendments.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

3. Approval is subject to any changes the AUASB require as a result of their deliberations at the 15 September 2015 meeting; and further QA procedures.

Part B – NZAuASB

1. AUASB staff has been in regular contact with NZAuASB staff.
2. NZAuASB staff will be informed when all papers are available via the AUASB website.

Part C – “Compelling Reasons” Assessment

1. Compelling reasons documentation will be completed after the AUASB’s deliberations (15 September 2015). The compelling reasons documentation will become the primary input to the final “Basis for Conclusions”.

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☒ N ☐

AUASB Technical Group Recommendations

The proposed Auditing Standards be approved.

Material Presented

Agenda Item 4	AUASB Board Meeting Summary Paper
Agenda Item 4.1	ASA 720 Disposition of Comments and Conforming Amendment Comments
Agenda Item 4.2	Proposed ASA 720 (Clean)
Agenda Item 4.3	Proposed ASA 720 (Marked Up)
Agenda Item 4.4	Proposed Amending Standard (Clean)
Agenda Item 4.5	Proposed Amending Standard (Marked Up)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider ED submissions	AUASB comments	AUASB	15 September 2015	o/s
2.	Give approval	AUASB approval	AUASB	15 September 2015	o/s

Matters that were communicated with those charged with governance (TCWG)

Considerations

- Areas of higher assessed risk [or significant risk requiring special auditor considerations]
- Significant auditor judgements relating to areas of significant management judgement
- Significant events or transactions

Matters that require significant auditor attention

DOCUMENT

Considerations

- Nature and extent of communication with TCWG
- Importance to users' understanding of the financial report
- Nature and extent of audit effort
- Nature of underlying accounting policy, complexity or subjectivity
- Nature and materiality, quantitative and qualitative, of corrected and uncorrected misstatements
- Severity of any control deficiencies relevant to the matter
- Nature and severity of difficulties applying audit procedures, evaluating results of those procedures, and obtaining relevant and reliable evidence

KEY AUDIT MATTERS
Communicated in the auditor's report

- ◆ **Reference** to the related disclosure (if any)
- ◆ **Why** the matter is considered to be a KAM
- ◆ **How** the matter was addressed in the audit
 - Aspects of the auditor's approach
 - Brief overview of procedures performed
 - Indication of the outcome of the auditor's procedures
 - Key observations with respect to the matter

Key Audit Matters
Matters of most significance in the audit

DOCUMENT

Communicate
or not?

DOCUMENT

Considerations

- Whether adverse consequences to the entity or the public of communicating a KAM are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating the matter
- Management views on why the matter has not been publically disclosed
- Laws or regulations that may impact communicating the matter, including any requirement for the auditor to communicate with regulatory, enforcement or supervisory authorities
- Relevant ethical requirements
- Need for legal advice

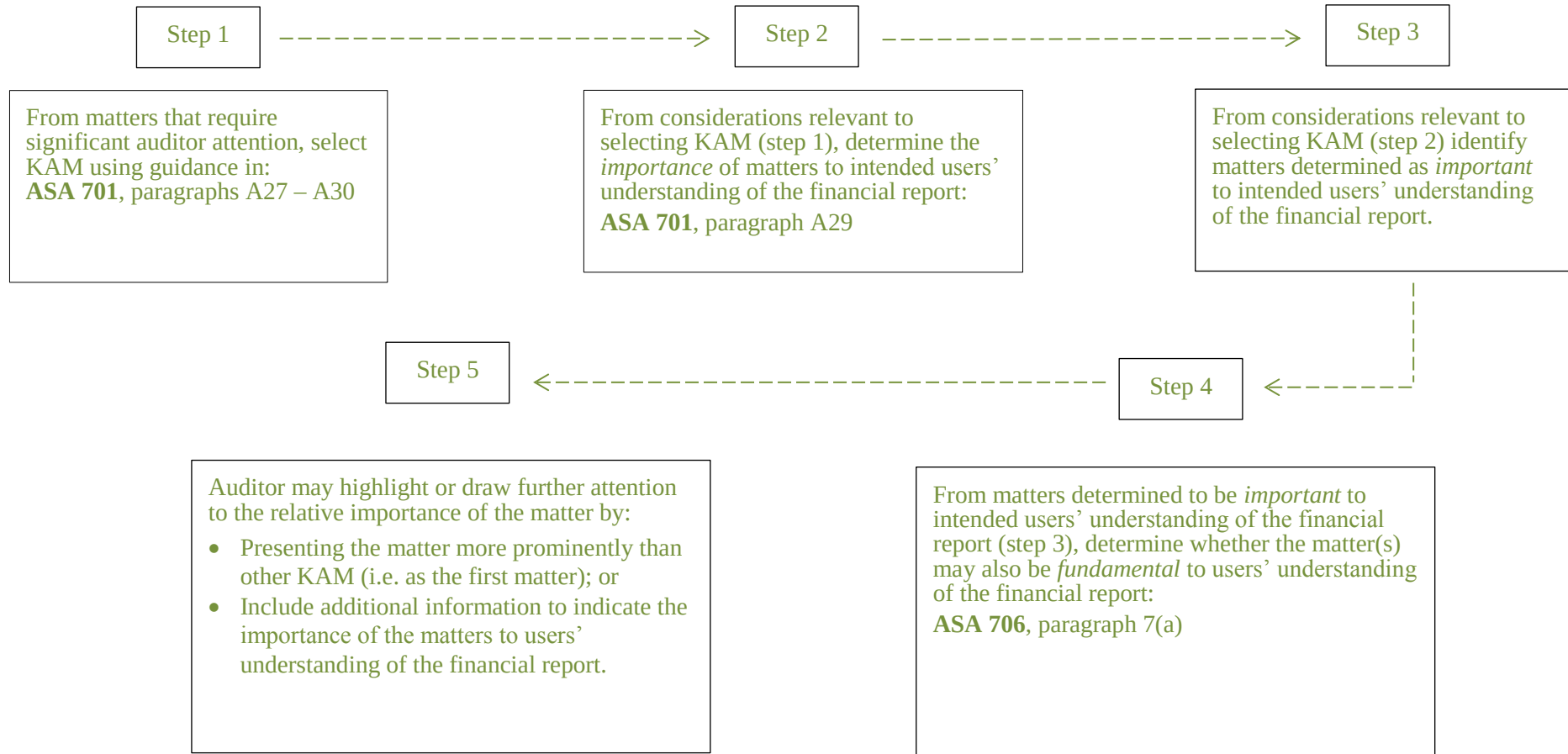
DRAFT

DECISION-MAKING FRAMEWORK FOR KAM and EOM

Agenda Item 5(a).2
AUASB Meeting 15 September 2015

Exercise Professional Judgement

Exercise Professional Judgement



Exercise Professional Judgement

Exercise Professional Judgement



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5(a)**
Meeting Date: 15 September 2015
Subject: Auditor Reporting Decision Diagrams
Date Prepared: 7 September 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To consider two draft decision diagrams in relation to Key Audit Matters (KAM).

Background

At the 28 July 2015 AUASB meeting, a request was made to draft a decision diagram in relation to KAM.

Diagrams (KAM) and (KAM and EOM) have been drafted for consideration at the 15 September 2015 meeting.

Matters to Consider

Part A – General

The AUASB is requested to consider the two draft decision diagrams and decide on:

- (a) Whether to adopt one or both diagrams into the appendices of the relevant auditing standard (either ASA 701 on KAM or ASA 706 on KAM and EOM); and
- (b) If inclusion in the auditing standards is agreed to, what changes to either or both draft diagrams are necessary.

Part B – NZAuASB

NZAuASB staff is aware of the potential for one or more decision diagrams to be included in the relevant appendices.

Part C – “Compelling Reasons” Assessment

Helpful to practitioners.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☒ N ☐

AUASB Technical Group Recommendations

None.

Material Presented

Agenda Item 5(a)	AUASB Board Meeting Summary Paper
Agenda Item 5(a).1	Decision Diagram (KAM)
Agenda Item 5(a).2	Decision Diagram (KAM and EOM)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider draft decision diagrams	Direction from AUASB	AUASB	15 September 2015	o/s

NZAuASB	AUASB
ISA 700	
Scope of KAM – initially for issuers then for FMC reporting entities considered to have higher levels of public accountability after a two year transition period NZ5.2 transitional provisions	Scope of KAM – listed entities (Reassess on post implementation)
Use of management and tcwg changed in the standard for the reporting requirement plus the illustrations, where the words “on behalf of the entity” have been added Nz4.1 Contextual paragraph NZ33.1	Amend references in the illustrative report only
Changes to deal with the New Zealand accounting standards framework NZ27.1, NZ50(d)(1) and NZ A23.1	Not applicable
Ethical reference changed to PES 1 (Revised)	Requires the auditor to identify the relevant ethical requirements applicable in Australia (Aus 28(c))
Additional ethical statement for all entities. NZ28.1 (Extant difference)	Not applicable
Statement that auditor has provided tcwg with a statement that the auditor has complied with the relevant ethical requirements applied to all FMC reporting entities considered to have a higher level of public accountability	Applied to listed entities as in the international requirements
Disclosure of the engagement partner name for all FMC reporting entities considered to have a higher level of public accountability	Disclosure of the name of the engagement partner where required by law or regulation Aus 45.1. Removed rare exception of a personal security threat.

NZAuASB	AUASB
Clarification that there are no conflicts between ISAs (NZ) and ISAs and different approach to para 50	None. Reworded if comply with AUASB standards and another jurisdiction
Drafting conventions – remove references to “jurisdictions” (ref. para. 4, 40(c), A30, A31, A52, A53 and “national auditing standards”. Other references to listed entities amended to FMC reporting entities considered to have higher public accountability	Use of jurisdictions appropriate in Australia due to the different states.
Use of a website to be permitted Reference to XRB website	Use of a website to be permitted Reference to AUASB website
<i>ISA 260</i>	
Not applicable	Delete reference to internal auditors providing direct assistance
<i>ISA 570</i>	
Relevant period defined as follows <i>Relevant period means the period of at least 12 months from the date of the auditor’s current report”</i>	Relevant period defined as follows <i>Relevant period means the period of approximately 12 months from the date of the auditor’s current report to the expected date of the auditor’s report for:</i> <i>(a) the next annual reporting period in the case of an annual financial report; or</i> <i>(b) the corresponding reporting period for the following year in the case of an interim reporting period.</i>
<i>ISA 720</i>	
Reporting of other information for FMC reporting entities considered to have a higher level of public accountability even if not received at the date of the report	Reporting for listed entities, consistent with international requirements, even if not received at the date of the report
To include a diagram in appendix	To include a diagram in appendix



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 5(b)
Meeting Date: 15 September 2015
Subject: Auditor Reporting – AUASB/NZAuASB Differences
Date Prepared: 8 September 2015

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

To inform the AUASB of the NZAuASB amendments to the enhanced auditor reporting standards.

Background

N/A

Matters to Consider

Part A – General

Agenda Item 5(b).1 for information only.

Part B – NZAuASB

Agenda Item 5(b).1 was prepared by NZAuASB staff and considered by the NZAuASB at their 2 September 2015 meeting.

Part C – “Compelling Reasons” Assessment

N/A

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☒ N ☐

Material Presented

Agenda Item 5(b)	AUASB Board Meeting Summary Paper
Agenda Item 5(b).1	AUASB/NZAuASB Differences

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5(d)**

Meeting Date: 15 September 2015

Subject: Disclaimers in Auditor's Reports

Date Prepared: 9 September 2015

☐ Action Required

☒ For Information Purposes Only

Agenda Item Objectives

To provide the AUASB with an article on disclaimers in auditor's reports, for discussion.

Matters to Consider

Part A – General

Article at Agenda Item 5(d).

Part B – NZAuASB

n/a

Part C – “Compelling Reasons” Assessment

n/a

The proposed changes conform with IAASB modification guidelines for NSS?

Y ☐ N ☐

Material Presented

Agenda Item 5(d) AUASB Board Meeting Summary Paper

Agenda Item 5(d).1 Article on Disclaimers in Auditor's Reports

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

GS 009

(~~September 2013~~ September 2015)

Guidance Statement GS 009

Auditing Self-Managed Superannuation Funds

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

Draft

DISCLAIMER

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



Australian Government

Auditing and Assurance Standards Board

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 009- *Auditing Self-Managed Superannuation Funds*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

The Guidance Statement does not prescribe or create new requirements.

Dated:

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 009

Auditing Self-Managed Superannuation Funds

Application

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

Issuance Date

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

Introduction

4. SMSFs are a specific type of superannuation fund which have fewer than five members and are regulated by the Australian Taxation Office (ATO). In addition, the SISA² gives ASIC the responsibility for the registration of approved SMSF auditors and setting competency standards. SMSFs are primarily governed by the requirements of the SISA, SISR, the *Income Taxation Assessment Acts 1936 and 1997* (ITAA) and ~~the a~~ fund's governing rules ~~(formerly referred to as the trust deed)~~, which include the trust deed and applicable ~~ease law~~ legislation. Complying SMSFs are eligible for tax concessions, and may also receive Superannuation Guarantee (SG) contributions. Complying SMSFs are Australian superannuation funds which meet the requirements of the SISA and SISR and are "regulated"³ under the SISA.
5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),⁴ who is required to complete both the financial audit and the compliance engagement and sign the auditor's report before a SMSF may submit its Annual Return.⁵ The auditor reports to the trustees⁶ in the "approved form", as issued and updated from time to time, by the ATO,⁷ which includes opinions under two sections:
 - (a) Part A: Financial report; and
 - (b) Part B: Compliance report.

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

² See Division 1, Section 6 of the SISA.

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

⁴ Approved SMSF auditor is defined in paragraph ~~1213~~.

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

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

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

6. This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which the auditor has with respect to conducting SMSF audit engagements, and to provide guidance to the auditor on matters which the auditor considers when planning, conducting and reporting on the financial audit and compliance engagement of a SMSF.
7. This Guidance Statement does not extend the responsibilities of the auditor beyond those which are imposed by the SISA, SISR, Australian Auditing Standards (Auditing Standards), Standards on Assurance Engagements (ASAEs) or other applicable legislation.
8. This Guidance Statement comprises:
 - (a) an introductory section, which provides guidance on matters common to both the financial audit and compliance engagement;
 - (b) Part A, which provides guidance on the financial audit; and
 - (c) Part B, which provides guidance on the compliance engagement.
9. This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to the requirements and guidance contained in:
 - (a) the Australian Auditing Standards , in which references to the “auditor” includes an approved SMSF auditor conducting the financial audit of a SMSF;
 - (b) applicable Standards on Assurance Engagements , specifically ASAE 3100 *Compliance Engagements*, in which references to the “assurance practitioner” include an auditor conducting a compliance engagement of a SMSF;
 - (c) the SISA and SISR;
 - (d) Applicable ATO Rulings, Interpretive Decisions (ID) and Guides and the Income Tax Assessment Acts; and
 - (e) Applicable ASIC Regulatory Guides and Class Orders.⁸
- ~~(e)~~ 10. This Guidance Statement does not provide guidance on auditing a defined benefit fund⁹ as these funds are not generally prevalent as SMSFs.

Definitions

- ~~10.~~ 11. A SMSF meets the definition of a SMSF of the SISA¹⁰ if:
- (a) it has fewer than five members;
 - (b) each individual trustee or director of the corporate trustee is a member of the fund, unless it is a single member fund, in which case the sole member is either:
 - (i) a director of the corporate trustee or one of two directors who are related or, if unrelated, the member is not an employee of the other director; or
 - (ii) one of two individual trustees who are related or, if unrelated, the member is not an employee of the other trustee;
 - (c) each member of the fund is a trustee or a director of the corporate trustee;
 - (d) no member is an employee of another member, unless they are relatives; and

⁸ Further detail is available at www.asic.gov.au/smsf-auditor.

⁹ Defined Benefit Fund defined in Regulation 1.03(1) of the SISR.

¹⁰ See sSubsections 17A(1) & (2) of the SISA.

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

~~11.~~ 12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA¹² if:

- (a) a member of the fund has died and the legal personal representative of the member is a trustee of the fund or a director of a body corporate that is the trustee of the fund, in place of the member, during the period:
 - (i) beginning when the member of the fund died; and
 - (ii) ending when death benefits commence to be payable in respect of the member of the fund; or
- (b) the legal personal representative of a member of the fund is a trustee of the fund or a director of a body corporate that is the trustee of the fund, in place of the member, during any period when:
 - (i) the member of the fund is under a legal disability; or
 - (ii) the legal personal representative has an enduring power of attorney¹³ in respect of the member of the fund; or
- (c) if a member of the fund is under a legal disability because of age and does not have a legal personal representative - the parent or guardian of the member is a trustee of the fund in place of the member; or
- (d) an appointment under section 134 of an acting trustee of the fund is in force.

~~12.~~ 13. An approved SMSF auditor¹⁴ is a person who is registered as an approved SMSF auditor with ASIC^{15,16} but does not include:

- (a) a person for whom an order disqualifying that person from being an approved SMSF auditor is in force; or
- (b) a person who is disqualified from being or acting as an auditor of any superannuation entities~~entity~~.

Trustees' Responsibilities

~~13.~~ 14. The responsibilities of the SMSF's trustees are contained in the SISA, SISR, and the governing rules of the fund. The trustees have ultimate responsibility for the compliance of the SMSF with the SISA and SISR and any other legislation, such as the taxation legislation affecting SMSFs. Certain covenants affecting the behaviour of the trustees of a SMSF are deemed to be contained in the SMSF's governing rules under section 52B and 52C¹⁷ of the SISA, which are in summary:

- (a) to act honestly;
- (b) to exercise care, skill and diligence;

¹¹ Section 17B of the SISA allows for exceptions in relation to remunerations of trustees.

¹² See Subsections subsections 17A (3) & (4) of the SISA.

¹³ The applicability of enduring powers of attorney in this circumstance will vary depending on the relevant state legislation. Guidance is also provided in Self-Managed Superannuation Funds ATO Ruling SMSFR 2010/2.

¹⁴ See Subsection subsection 10(1) of the SISA.

¹⁵ See SISA section 128B and ASIC Regulatory Guide 243 *Registration of self-managed superannuation fund auditors* provides guidance on how to apply for registration as an approved SMSF auditor.

¹⁶ From 1 July 2013, an assurance practitioner is required to be registered with ASIC in order to undertake the audit of an SMSF for any reporting year.

¹⁷ From 1 July 2013, these covenants are contained in sections 52B and 52C of the SISA.

- (c) to act in the best interests of beneficiaries;
- (d) to keep the money and assets of the SMSF separate from the money and assets held personally by the trustees and from those of any employer-sponsor of the SMSF or their associates;¹⁸
- (e) not to enter into a contract or agreement that would hinder the trustees in properly performing their duties;
- (f) if applicable to the fund, to formulate and give effect to a reserves strategy;
- (g) to formulate, review regularly and give effect to an investment strategy; and
- (h) to allow beneficiaries access to prescribed information and documentation.

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

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

Auditor's Responsibilities

- 15.16. The professional obligations of approved SMSF auditors under the SISA²¹ are to:

- (a) complete the continuing professional development requirements prescribed by the regulations;²²
- (b) hold a current policy of professional indemnity insurance;²³
- (c) comply with:
 - (i) any competency standards²⁴ ASIC determines;
 - (ii) any standards issued by the Auditing and Assurance Standards Board (unless not considered applicable to the audit of that particular SMSF); under:
 - ◇ section 336 of the *Corporations Act 2001*; or
 - ◇ section 227B of the *Australian Securities and Investments Commission Act 2001*; and
- (d) comply with the auditor independence requirements produced by the Accounting Professional and Ethical Standards Board Limited and set out in APES 110 *Code of Ethics for Professional Accountants* as prescribed by the regulations.²⁵

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

¹⁸ See Regulation regulation 4.09A of the SISR.

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

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

²¹ See Subsection 128F of the SISA.

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

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

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

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

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

members of CPA Australia, Institute of Chartered Accountants Australia and New Zealand (ICAANZ) and Institute of Public Accountants (IPA) are required to comply with competency requirements²⁷ when accepting and conducting SMSF audits. These include requirements to hold a practising certificate, maintain appropriate professional indemnity insurance, complete minimum continuing professional development in the audit of SMSFs and ensure staff have appropriate knowledge and experience and are properly supervised. Auditors ensure that they are up-to-date and compliant with any applicable competency requirements imposed by their professional bodies in accepting and conducting SMSF audits.

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

- (a) provide an auditor's report on the SMSF's operations for the year to the trustees in the approved form,²⁸ within no longer than 28 days after the trustee of the fund has provided all documents relevant to the preparation of the report to the auditor;²⁹
- (b) report in writing to a the trustees, if the auditor forms the opinion in the course of or in connection with the performance of the audit of the SMSF, that:
 - (i) any contraventions of the SISA or SISR, may have occurred, may be occurring or may occur in relation to the SMSF (section 129 of the SISA); or
 - (ii) the financial position of the SMSF may be, or may be about to become, unsatisfactory (section 130 of the SISA); and
- (c) report in writing to the ATO³⁰ using the approved form Auditor/actuary contravention report (ACR) and instructions (ACR instructions),³¹ if the auditor forms the opinion in the course of or in connection with the performance of the audit of a SMSF, that:
 - (i) it is likely that a contravention, may have occurred, may be occurring or may occur, of the requirements of the SISA or SISR, specified by the ATO in the ACR, which meet the tests specified in the ACR instructions (section 129 of the SISA); or
 - (ii) the financial position of the SMSF may be, or may be about to become, unsatisfactory (section 130 of the SISA).

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

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

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

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

²⁸ See *Section section* 35C of the SISA.

²⁹ See *Regulation regulation* 8.03 of the SISR.

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

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

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

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

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

Conduct the Financial Audit in Accordance with Auditing Standards

- 21.22. The auditor complies with all of the requirements in each of the Auditing Standards relevant to the financial audit in determining the audit procedures to be performed in conducting an audit in accordance with the Auditing Standards. The key Auditing Standards which are relevant to the conduct of the financial audit of a SMSF include, but are not limited to:
- (a) ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* requires the auditor to comply with relevant ethical requirements, including those pertaining to independence.
 - (b) ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* requires the auditor to:
 - (i) comply with the relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements;
 - (ii) comply with all Australian Auditing Standards relevant to the audit;
 - (iii) plan and perform an audit of a financial report by exercising professional judgement;
 - (iv) plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated; and
 - (v) To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework.
 - (c) ASA 210 *Agreeing the Terms of Audit Engagements* requires the terms of the audit engagement to be agreed with ~~management or those charged with governance~~ the fund trustee, in an audit engagement letter or other suitable form of written agreement. On recurring audits, the auditor assesses whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the ~~entity-fund~~ trustee of the existing terms of the audit engagement. The auditor obtains the trustees² acknowledgement that their responsibilities under SISA and the SISR include the preparation of financial statements and records, establishing and maintaining internal controls, particularly those preventing and detecting fraud and error, and providing the auditors with any information, explanations and assistance required for the audit.
 - (d) ASA 220 *Quality Control for an Audit of a Financial Report and Other Financial Information* requires the engagement partner to:

³² ASIC class order CO 12/1687.

- (i) remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team, throughout the audit engagement;
 - (ii) form a conclusion on compliance with the independence requirements that apply to the audit engagement;
 - (iii) be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and determine that conclusions reached in this regard are appropriate;
 - (iv) be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capability to perform the audit engagement;
 - (v) take responsibility for the direction, supervision and performance of the audit engagement; and
 - (vi) take responsibility for the auditor's report being appropriate in the circumstances.
- (e) ASA 230 *Audit Documentation* requires preparation of documentation:
- (i) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the Australian Auditing Standards and applicable legal and regulatory requirements;
 - (ii) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the results of the audit procedures performed, the audit evidence obtained, significant matters arising during the audit, the audit conclusion reached thereon and significant professional judgements made in reaching those conclusions; and
 - (iii) which is assembled in an audit file on a timely basis (ordinarily not more than 60 days) after the date of the auditor's report.
- (f) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* requires the auditor to consider the risks of material misstatements in the financial report due to fraud.³³
- (g) ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* requires the auditor to obtain a general understanding of the legal and regulatory framework applicable to the entity, how the entity is complying with that framework, perform further audit procedures to help identify instances of non-compliance with those laws and regulations that may have a material effect on the financial report and obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. For example, non-compliance with requirements of the SISA, SISR or taxation legislation by an SMSF, such as ~~the failure to meet the definition of a SMSF~~ early access of benefits or significant in-house assets issues, may expose the SMSF to additional tax liabilities which may impact materially on the SMSF's financial report.
- (h) ASA 260 *Communication with Those Charged with Governance* requires the auditor to determine the appropriate person(s) within the entity's governance structure with

³³ Due to the few persons involved in the operation of an SMSF, there is ordinarily limited segregation of duties, which may impact on the auditor's assessment of fraud risk, as trustees, administrators or advisers may have an ability to override controls. SMSFs are not afforded the same level of protection as APRA regulated funds, for which provision is made, in certain circumstances, for members to be compensated for losses incurred in the event of fraud.

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

- (i) ASA 265 *Communication Deficiencies in Internal Control to Those Charged with Governance and Management* requires the auditor to communicate appropriately to those charged with governance and management, deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions. This Auditing Standard may not be applicable for smaller audits. Regardless of whether the auditor has relied on internal controls or not, deficiencies of internal controls identified during the audit may still need to be communicated with the trustees of the fund.
- (j) ASA 300 *Planning an Audit of a Financial Report* requires the auditor to perform preliminary engagement activities, including evaluation of their own compliance with relevant ethical requirements including independence, to establish and document an overall audit strategy that sets the scope, timing and direction of the audit, that guides the development of the audit plan and plan the nature, timing and extent of direction and supervision of the engagement team members and review of their work.
- (k) ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* requires the auditor to obtain an understanding of the entity (the SMSF) and its environment, including its internal controls to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion level.
- (l) ASA 320 *Materiality in Planning and Performing an Audit* requires the auditor to determine materiality for the financial report as a whole when determining the overall audit strategy, and to determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.
- (m) ASA 330 *The Auditor's Responses to Assessed Risks* requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial report level and design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. Further audit procedures may comprise only substantive procedures or, when reliance is placed on the operating effectiveness of controls to reduce substantive testing, include tests of controls.
- (n) ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation* requires the auditor to determine whether the service organisation's activities are of significance to the entity and relevant to the audit and, if so, the auditor is required to obtain a sufficient understanding of the entity and its environment to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risk. The auditor may need to obtain evidence of the operating effectiveness of the service organisation's controls and may use a report of a service organisation auditor to provide that evidence. In using the service auditor's report, the auditor considers the professional competence of the service auditor, the nature and content of the report, the scope of the work performed and whether the nature, timing and extent of the tests of controls and results that are relevant, provide sufficient appropriate audit evidence about the operating effectiveness of those controls to support the assessed risks of material misstatement. Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides further guidance to an auditor in obtaining sufficient appropriate audit evidence when the SMSF uses a third party service organisation for investment management services, including custody, asset management or, property

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

- (o) ASA 450 *Evaluation of Misstatements Identified during the Audit* requires the auditor to determine whether the overall audit strategy and audit plan needs to be revised if the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or approaches materiality determined in accordance with ASA 320.
- (p) ASA 500 *Audit Evidence* requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. It requires the auditor to consider the relevance and reliability of the information to be used as audit evidence.
- (q) ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims* requires the auditor to design and perform audit procedures to identify litigation and claims which may give rise to a risk of material misstatement, and accounted for and disclosed in accordance with the applicable financial reporting framework. For an SMSF, material legal matters may include: the divorce of a member which may threaten the liquidity of the SMSF, an ATO investigation into the trustee or legal action commenced by the SMSF against the SMSF's administrators or investment managers, each of which may have a material effect on the financial report.
- (r) ASA 505 *External Confirmations* requires the auditor to request external confirmations where they are necessary to obtain sufficient appropriate audit evidence.
- (s) ASA 510 *Initial Audit Engagements – Opening Balances* requires the auditor to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report, whether the prior period closing balances have been correctly brought forward and that appropriate accounting policies are applied consistently.
- (t) ASA 520 *Analytical Procedures* requires the auditor to design and perform analytical procedures to address the assessed risks of material misstatement near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial report is consistent with the auditor's understanding of the entity.
- (u) ASA 530 *Audit Sampling* requires if sampling is used, the auditor, when designing the sample to consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn and to evaluate whether the results of the sample provide a reasonable basis for concluding on the population.
- (v) ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures* requires the auditor to obtain sufficient appropriate audit evidence that accounting estimates, including fair value accounting estimates and disclosures are reasonable and are in accordance with the applicable financial reporting framework, which is chosen by the trustee in the case of an SMSF. The requirements and guidance in ASA 540 are particularly relevant to the audit of trustees' valuations, which are common in SMSF's. Regulation 8.02B of the SISR requires SMSF assets to be valued at market value, refer paragraph ~~165-164~~ for further guidance.
- (w) ASA 550 *Related Parties* requires the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence that all related party relationships and

transactions have been identified, and have been appropriately recorded and disclosed³⁴ in the financial report.

- (x) ASA 560 *Subsequent Events* requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report have been identified, and if material, are properly disclosed and accounted for.
- (y) ASA 570 *Going Concern* requires the auditor to consider the appropriateness of use of the going concern assumption in the preparation of the financial report.
- (z) ASA 580 *Written Representations* requires the auditor to request written representations from management that they are responsible for the preparation of the financial report in accordance with the applicable reporting framework, they have provided the auditor with all relevant information and access, and that all transactions have been recorded and reflected in the financial report. In the case of a SMSF, these representations are obtained from the trustees.
- (aa) ASA 620 *Using the Work of an Auditor's Expert* requires the auditor, when using the work of an auditor's expert, to obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit and to evaluate the competence, capabilities and objectives of the auditor's expert.
- (bb) ASA 700 *Forming an Opinion and Reporting on a Financial Report* requires the auditor to form an opinion on whether the financial report is prepared, in all material respects, in accordance with the applicable financial framework, and to express the auditor's report in writing.
- (cc) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* requires the auditor to modify the auditor's report when it is not possible to issue an unmodified audit opinion. The circumstances may dictate that, due to a conflict, a significant uncertainty, a limitation of scope or a lack of sufficient appropriate audit evidence, that it is not possible to issue an unqualified audit opinion. In these circumstances, ASA 705 requires the auditor to issue either a qualified audit opinion, a disclaimer of opinion or an adverse opinion.
- (dd) ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* contains the requirements of how the emphasis matter of paragraph is to be shown in the auditor's report.
- (ee) ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* requires the auditor to determine whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.
- (ff) ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* specifies the form of the auditor's report on special purpose financial reports, which for SMSFs is reflected in the approved form auditor's report issued by the ATO.³⁵ Auditor's reports for SMSF's are to include an Emphasis of Matter paragraph for periods commencing on or after 1 January 2010. This paragraph draws attention to the note of the financial report which describes the basis of accounting.

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

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

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

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

- Comply with applicable Standards on Assurance Engagements.
- Comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
- Implement quality control procedures.
- Meet acceptance and continuance procedures.
- Agree the terms of the engagement in writing.
- Plan the compliance engagement so that it will be performed effectively.
- Consider materiality and compliance engagement risk³⁶ when planning and performing the compliance engagement.
- Reduce compliance engagement risk to an acceptable level in the circumstances of the compliance engagement.
- Obtain sufficient appropriate evidence on which to base the conclusion and evaluate the impact on the conclusion of any compliance breaches noted.
- Consider the effect of events up to the date of the compliance report.
- Prepare, on a timely basis, documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and evidence that the engagement was performed in accordance with ASAE 3000 and ASAE 3100.
- Express a conclusion about the subject matter information, which for an SMSF is compliance in all material respects with the SISA and SISR requirements specified in the approved form auditor's report.

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

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

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

Preliminary Engagement Activities

~~25:~~26. Prior to commencing the audit, the auditor performs a number of preliminary tasks to gain confidence that undertaking the audit is appropriate from a client and ethical point of view. ASA 300 requires the auditor, prior to beginning an audit engagement, to:

- (a) perform procedures regarding the acceptance and continuance of the client relationship and the specific audit engagement;
- (b) evaluate compliance with relevant ethical requirements relating to the audit engagement, including independence; and
- (c) establish an understanding of the terms of engagement.

These procedures are outlined below.

Acceptance and Continuance Procedures

~~26:~~27. Under the Auditing Standards and ASAE 3000, the auditor only accepts or continues an engagement if nothing comes to the auditor's attention to indicate that the requirements of the fundamental ethical principles, the Auditing Standards and ASAE 3000 will not be satisfied.

~~27:~~28. For an initial audit, where there has been a change of auditor, the auditor communicates with the previous auditor in accordance with the relevant ethical requirements to ensure that there is no impediment or restriction in accepting and conducting the audit. The new auditor ~~may need to seek~~³⁷ permission from the trustees³⁷ to communicate with the previous auditor.

Ethical Requirements

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

- (a) integrity;
- (b) objectivity;
- (c) professional competence and due care;
- (d) confidentiality; and
- (e) professional behaviour.

The concept of independence is fundamental to compliance with the principles of integrity and objectivity and is mandatory³⁹ for auditors undertaking the audit of a SMSF.

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

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

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

³⁸ In Australia, the applicable code of ethics of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional and Ethical Standards Board. This Code of Ethics has been adopted by CPA Australia, IPA and ICAA and is applicable to their members. Members of the ATMA are also required to conform with this code under the ATMA by-laws. Fellows of the NTAA who obtained fellowship by virtue of holding a practising certificate from one of the professional accounting bodies, will be members of one of those bodies and consequently are also required to comply with the Code of Ethics.

³⁹ See ~~Regulation~~^{regulation} 9A.06 of the SISR.

audit in accordance with the Auditing Standards, applicable Standards on Assurance Engagements and legislative requirements. Capabilities and competence are developed through a variety of means, including professional education, training, practical experience, coaching and mentoring by more experienced staff. Under the SISA⁴⁰ the auditor is required to comply with competency standards set out by ASIC.⁴¹ In addition, meeting the applicable competency requirements of their professional bodies will assist SMSF auditors to maintain the competence, knowledge, skills and capabilities necessary to perform SMSF audits satisfactorily.

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

Independence

- 32.33. ASA 220 requires the engagement partner to form a conclusion on compliance with the independence requirements applying to the audit engagement which are contained in the Code of Ethics. ASAE 3100 requires compliance with the fundamental ethical principles on compliance engagements, for which the concept of independence is integral. The SISA⁴² and the SISR⁴³ requires the auditor to comply with the auditor independence requirements prescribed by the APES 110 *Code of Ethics for Professional Accountants*.⁴⁴

- 33.34. Overall, independence requires both:

- (a) independence of mind - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and
- (b) independence in appearance - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the engagement team's, integrity, objectivity or professional scepticism had been compromised.

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

- 35.36. When assessing independence the auditor:

- (a) identifies any threats to independence;
- (b) evaluates the significance of the threats; and
- (c) if the threats are other than clearly insignificant, identifies and applies safeguards to eliminate or reduce the threats to an acceptable level.

- 36.37. The threats to independence in a SMSF audit engagement may include:

- Self-interest threat, which occurs when a firm or a member of the audit team could benefit from a financial interest in, or other self-interest conflict with, an audit client. For example, this could arise if the auditor, member of the audit team or their immediate family member is a trustee or member of the SMSF ~~or the SMSF is the sole~~

⁴⁰ See Subsection subsection 128Q of the SISA.

⁴¹ See ASIC Class Order CO 12/1687.

⁴² See Subsection subsection 128F (d) of the SISA.

⁴³ See Regulation regulation 9A.06 of the SISR.

⁴⁴ In addition, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide* Fourth Edition, February 2013.

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

- Self-review threat, which occurs when any product such as a set of financial accounts, or a judgement of a previous engagement needs to be re-evaluated in reaching conclusions on the audit engagement so that the auditor is reviewing their own work. For example, where a member of the audit team prepared the SMSF's financial report or accounting records.
- Advocacy threat, which occurs when a firm, or member of the audit team, promotes, or may be perceived to promote an audit client's position to the point that objectivity may be, or be perceived to be, compromised. For example, when an audit team member acts as an advocate for the SMSF in litigation or a dispute.
- Familiarity threat, which is when, by virtue of a close relationship with an audit client, its directors, officers or employees, the firm or a member of the audit team becomes too sympathetic to the client's interests. For example, when a close family member of the auditor is a trustee or member of the SMSF or an employee of the SMSF's administrator or where the auditor has a long association with a trustee.
- Intimidation threat, which is when a member of the audit team is deterred from acting objectively by threats, actual or perceived, from the trustees of the SMSF or the directors, officers or employees of a related entity of a trustee or their advisors or the accountant of the trustee. This may also occur where an auditor is subject to intimidation by a colleague in their own firm who has a vested interest in retaining the SMSF client because they are the SMSF's accountant or financial adviser. For example, a threat of replacement over a disagreement with the application of an accounting principle or the loss of other general accounting or tax work or the loss of employment if the auditor's opinion is modified or an ACR is submitted to the ATO. An intimidation threat may also arise where a SMSF administrator pressures the auditor to reduce inappropriately the extent of work performed in order to reduce fees in circumstances where the administrator refers a significant number of SMSF audit clients.

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

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

~~38.~~39. Safeguards created by the profession, legislation or regulation, generally include the following:

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

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

legislation and regulation and those safeguards created by internal systems within the auditor's firm to enhance independence.

40-41. In evaluating threats to independence and considering applicable safeguards, the auditor considers the nature of the SMSF, the range of services provided to the audit client and the relationships the auditor and the audit team have with the SMSF's trustees, financial adviser, accountants, administrator, actuary and any other person or organisation involved with the management or operation of the SMSF.

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

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

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

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

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

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

45.46. Where the audit firm or individual partner is unduly reliant on the audit fees from a particular SMSF or group of SMSFs, such as those SMSFs referred by a single referral source, the concern about the possibility of losing the referrals may create a self-interest, advocacy or intimidation threat. Safeguards include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed. In addition, the audit firm establishes policies and procedures around engagement quality reviews⁴⁵. These policies may include ~~or contracting of suitably qualified external persons~~ obtaining an external quality review or other firms⁴⁶.

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

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

47.48. In situations in which no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the audit engagement.

48.49. Appendix 6.5 of this Guidance Statement provides a number of practical examples of SMSF audit engagements and the threats to independence posed by those engagements, as well as some appropriate safeguards which may address those threats.

Professional Judgement and Scepticism

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

- Professional judgement emanates typically from the auditor's expertise, experience, knowledge and training. When exercising professional judgement, the auditor maintains independence and objectivity and adopts an attitude of professional scepticism in order to achieve the audit objectives.
- Professional scepticism requires the auditor to maintain a questioning mind as to the validity of audit evidence presented and representations of the trustees. The auditor remains alert to contradictory information or information that brings into question the validity of the evidence presented.
- In exercising professional judgement, with an attitude of professional scepticism, auditors independently evaluate the quality of audit evidence collated throughout the course of the engagement.

Quality Control

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

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

⁴⁵ See ASQC 1, paragraph 35.

⁴⁶ See ASQC 1, paragraph A50.

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

Agree the Terms of Engagement

- ~~51.~~52. Under ASA 210, the auditor is required to agree the terms of the audit engagement in writing with the SMSF trustees prior to conducting the audit. This is usually in the form of an engagement letter to the trustees. ASA 210 provides guidance on the principal contents of an engagement letter.
- ~~52.~~53. The trustees are required to appoint the auditor at least 45 days prior to the date that the SMSF annual return is due to be lodged.⁴⁷ Either the trustees may be involved in the selection and appointment of the auditor or the SMSF's accountants, administrators or financial planners may assist with the sourcing and recruitment of an auditor for the SMSF. In either case, the trustees approve the appointment in writing before the audit commences, usually by signing the engagement letter and indicating their approval in a trustee minute. The engagement letter is between the auditor and the trustees of the SMSF and not the auditor and the party referring the engagement such as the accountant or administrator.
- ~~53.~~54. For a SMSF audit engagement, the engagement letter ordinarily:
- Describes the objective and scope of the financial audit and compliance engagement, including the sections and regulations of SISA and SISR against which the auditor will be reporting.
 - Identifies the responsibilities of the auditor.
 - Identifies the responsibilities of the trustees, including:
 - Establishing and maintaining an adequate internal control structure.
 - Preparing the SMSF's financial report.
 - Keeping the records of the SMSF secure and for the statutory time periods.
 - Conducting the affairs of the SMSF in compliance with all relevant provisions of SISA, SISR and the fund's governing rules throughout the year.

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

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

54.55. ASA 210 does not require engagement letters to be issued every year. However, on recurring audits, the auditor considers whether it is appropriate to confirm the terms of the engagement in writing due to the circumstances of the engagement, including when there is:

- A revision of the terms of the engagement.
- An indication that the trustees misunderstand the objective and scope of the audit.
- A change in trustees.
- A significant change in the nature or size of the SMSF.
- Significant changes in the SISA, SISR or other regulatory requirements, such as changes to the requirements to be reported on in the approved form auditor's report or ACR.

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

Planning

56.57. Planning an audit involves a number of closely related procedures which include:

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

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

58.59. Adequate planning ~~may~~:

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

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

- The size, structure and complexity of the SMSF.

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

~~60.~~61. ~~An a~~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

~~61.~~62. Under ASA 300, the auditor is required to establish the overall audit strategy for the financial audit and this is mirrored in the guidance in ASAE 3100 for the compliance engagement. The overall audit strategy sets the scope, emphasis, timing, direction and conduct of the audit, including the resources required for the audit and supervision of the audit team. The audit strategy is based on the results of the preliminary work performed and the auditor's experience gained on any previous audit engagements with the SMSF.

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

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

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

- (a) The fund's governing rules were properly executed.
- (b) The SMSF has current and appropriately empowered trustees.
- (c) The SMSF was established with either a corporate trustee or individual trustees under the pension powers.
- (d) The fund's governing rules complies with or has a mechanism to comply with the SISA and SISR and changes thereto.

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

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

The covenants in subsection 52B(2)⁴⁹ and 52C(2) of the SISA are deemed to be included in the governing rules, even if they are not specifically included. A list of considerations in examining the SMSF's governing rules is included in Appendix 4.3 *Self-Managed Superannuation Fund Governing Rules Audit Planning Checklist*.

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

The Audit Plan

- 66.67. ASA 300 requires the auditor to develop and document the audit plan to record the key decisions and the nature, timing and extent of risk assessment procedures to be undertaken. The form and extent of the audit plan depends on the complexity of the SMSF and the circumstances of the specific audit engagement. The audit plan documents the procedures proposed to be undertaken at the assertion level and evidences work performed to facilitate proper review, supervision of the audit team and any external quality review.
- 67.68. The audit plan is dynamic and is required to be updated if necessary during the course of the audit. Audit evidence obtained may trigger a revision of the initial risk assessment and a need for further audit procedures, which is documented accordingly.
- 68.69. Often, the audit plan for a SMSF takes the form of a checklist template which assists in maintaining quality control for the engagement as required by ASA 220. However, standardised checklists templates need to be tailored specifically to reflect the requirements of the SISA and SISR, the particular circumstances and nature of the SMSF and the audit evidence available.
- 69.70. The audit plan encompasses financial audit procedures, such as the illustrative financial audit procedures⁵⁰ listed in Appendix 5.4 of this Guidance Statement, as well as compliance

Risk Assessment Procedures

- 70.71. The auditor obtains a sufficient understanding of the SMSF and its environment, including its internal control, to identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, and the risk of non-compliance with the specified requirements of the SISA and SISR, in order to design and perform further audit procedures. The risk assessment for the financial audit includes identifying and assessing risks at the financial report level and at the assertion level for classes of transactions, account balances and disclosures, as required by ASA 330.
- 71.72. Under ASA 315, the auditor is required to examine the internal controls of the SMSF and document the auditor's understanding of the control environment. ASAE 3100 requires the auditor to document the key elements of the compliance framework, such as procedures for identifying, assessing and reporting compliance incidents and breaches. Given the nature of a SMSF, it is reasonable that there are limited reliable internal controls for the auditor to rely on. Even if the auditor considers that a fully substantive audit approach is appropriate, the auditor is still expected to document their consideration of the internal control environment and the basis for their decision not to rely on controls.

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

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

- ~~72.~~73. Under ASA 250, the auditor is required to consider whether the SMSF has breached the SISA or SISR previously and whether there is any outstanding correspondence or unresolved issues with the ATO. Any such matters identified will impact on the risk assessment and the auditor's assessment of the compliance framework.
- ~~73.~~74. SMSFs are ~~often~~ small entities, with a close and related membership where all trustees and directors of the corporate trustee are equally responsible for managing the fund and making decisions ~~control is vested in a few individuals~~. There ~~may~~ would be little or no opportunity for implementing ~~proper~~ segregation of duties ~~in these circumstances~~ between trustees. Consequently, the auditor may assess the SMSF's internal control environment and compliance framework as ineffective, in which case the auditor will be unable to rely on the effectiveness of the internal controls to reduce substantive testing. As a result, the auditor may design and perform further audit procedures which are primarily or entirely substantive procedures. If the administration of the SMSF is outsourced, the auditor looks at the controls prevailing at the administrator.

Materiality

- ~~74.~~75. ASA 320 requires the auditor to consider performance materiality⁵¹ when determining the nature, timing and extent of financial audit procedures and ASA 450 requires the auditor to consider materiality when evaluating the effect of misstatements identified during the audit. Similarly, under ASAE 3100, the auditor considers materiality when planning and performing the compliance engagement and in assessing any compliance breaches identified. Information is material if its omission, misstatement or non-disclosure has the potential to adversely affect decisions made by users of the report. An auditor's consideration of materiality is a matter of professional judgement, and is affected by the auditor's perception of the information needs of users and the level of audit risk.
- ~~75.~~76. The auditor's preliminary assessment of materiality is based largely on quantitative factors, whereas when assessing the outcome of audit procedures, including the materiality of misstatements identified in the financial audit or contraventions identified in the compliance engagement, the auditor considers both their amount (quantitative) and nature (qualitative).
- ~~76.~~77. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within both Part A (paragraphs ~~143-141~~ to 146~~144~~) and Part B (paragraph ~~276~~268 to 269) respectively of this Guidance Statement.

Audit Evidence

- ~~77.~~78. The results of the risk assessment procedures enable the auditor to design and perform further audit procedures to respond to the assessed risks for the compliance engagement and financial audit. The auditor determines the nature, timing and extent of audit procedures to be performed, which may be either tests of controls or substantive procedures.
- ~~78.~~79. ASA 500 and ASAE 3100 require the auditor in the conduct of the financial audit and compliance engagement to obtain sufficient appropriate audit evidence on which to base the auditor's opinion. Sufficiency is the measure of the quantity of evidence, which is affected by the risk of misstatement, the higher the risk the more evidence is likely to be required. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability, the higher the quality the less evidence may be required. The auditor considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence gathering procedure for which there is no alternative. The auditor uses professional judgement and exercises professional scepticism in evaluating the quantity

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

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

~~79.~~80. Audit evidence means all the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based, and includes the information contained in the accounting records underlying the financial report and other information. For a SMSF this includes financial reports, trustees' minutes, investment holding certificates, contracts of sale, bank statements, invoices, receipts, titles, legal advice, ~~and~~ correspondence, ~~emails, Annual Returns, deposit books and cheque books,~~ which may be in paper or electronic form. Audit evidence, which is cumulative in nature, includes evidence obtained from audit procedures performed during the course of the audit and may include evidence obtained from previous audits and other sources.

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

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

~~81.~~82. A SMSF audit rarely involves the authentication of documentation, nor is the auditor trained as, or expected to be, an expert in such authentication. However, ASA 500 and ASAE 3000 require the auditor to consider the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitised or other electronic documents which are easily altered, including consideration of controls over their preparation and maintenance where relevant. The auditor remains aware of the potential for fraud in the presentation of audit evidence. If an auditor is aware, or suspects, that any documentation has been altered or differs from expected results, then further audit procedures are applied.

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

~~83.~~84. ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence, which include:

- Inspection of records or documents.
- Inspection of tangible assets.
- Observation.
- Enquiry.
- Confirmation.
- Recalculation.
- Reperformance.

- Analytical review.

84.85. ASA 530 *Audit Sampling and Other Means of Testing* requires the auditor to determine the appropriate means for selecting items for testing. Due to the specific nature of SMSFs and limited internal control environment, the auditor ~~may decide~~ would ordinarily rely on a highly substantive method of testing. This may involve examining the entire population of items that make up a class of transactions or account balance, when the population constitutes a small number of large value items or when there is a significant level of risk and other ~~means~~ audit procedures do not provide sufficient appropriate audit evidence.

Inspection of Records or Documents

85.86. Inspection of records or documents consists of examining records or documents, whether internal or external, in paper form, electronic form, or other media. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.

86.87. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a share or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value and further audit evidence would be sought. In addition, inspecting an executed contract may provide audit evidence relevant to the SMSF's application of accounting policies, such as revenue recognition.

Inspection of Tangible Assets

87.88. Inspection of tangible assets consists of physical examination of the assets. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the SMSF's rights and obligations or the valuation of the assets.

Observation

88.89. Observation consists of watching a process or procedure being performed by others. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed.

Enquiry

89.90. Enquiry consists of seeking financial or non-financial information from knowledgeable persons, either within the SMSF or outside the SMSF. Enquiry is an audit procedure that is used extensively throughout the audit and often is complementary to performing other audit procedures. Enquiries may range from formal written enquiries to informal oral enquiries. Evaluating responses to enquiries is an integral part of the enquiry process.

90.91. Responses received to enquiries may provide the auditor with information not previously possessed or with corroborative audit evidence supporting the audit opinion. Alternatively, responses to enquiries may provide information that differs significantly from other information that the auditor has obtained. In all cases, the auditor evaluates the responses received to enquiries to assess whether there is a need to modify or perform additional audit procedures to support the audit opinion.

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

92.93. The auditor obtains written representations from the trustees ~~or management~~ to confirm responses to oral enquiries on material matters when other sufficient appropriate audit

evidence cannot reasonably be expected to exist or when the other audit evidence obtained is of a lower quality.⁵²

Confirmation

- | ~~93.~~94. Confirmation, which is a specific type of enquiry, is the process of obtaining a representation of an existing condition or information directly from a third party. For example, the auditor may seek direct confirmation of cash balances with the SMSF's bank. Confirmations are frequently used in relation to account balances and their components.⁵³

Recalculation

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

Reperformance

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

Analytical Procedures

- | ~~96.~~97. Under ASA 520, the auditor is required to apply analytical procedures as risk assessment procedures to obtain an understanding of the SMSF and its environment and in the overall review at the end of the audit.
- | ~~97.~~98. Analytical review procedures may be utilised to compare and contrast how the SMSF has performed over two or more consecutive reporting periods. Common analytical procedures include comparing balances, calculating ratios and trend analysis. Major variations, inconsistencies or other deviations may warrant further investigation particularly where the difference is not easily understood, not explained sufficiently by the trustees or deviates from predicted amounts.
- | ~~98.~~99. Ordinarily, an auditor reviews the movement in the member balances from one period to another in the preliminary planning phase of the audit. This process identifies the movement in the balance from contributions and investment earnings as well as any reduction in balances due to benefit payments or expenses such as fees, charges or insurance premiums deducted. The auditor uses analytical review to assess whether the member balances are reasonable given the overall circumstances of the SMSF.

Audit Documentation

- | ~~99.~~100. ASA 230 and ASAE 3100 require the auditor to prepare, on a timely basis, audit documentation that is sufficient and appropriate to provide:
- (a) a basis for the auditor's report; and
 - (b) evidence that the audit was performed in accordance with Auditing Standards, applicable Standards on Assurance Engagements and applicable legal and regulatory requirements.
- | ~~100.~~101. Preparing sufficient appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit

⁵² See ASA 580 for further requirements and explanatory guidance on written representations.

⁵³ See ASA 505 for further requirements and explanatory guidance on confirmations.

evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared at the time the work is performed is likely to be more accurate than documentation prepared subsequently.

~~101.~~102. In assessing the extent of documentation, the auditor considers what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) the nature, timing, and extent of the audit procedures performed to comply with Auditing Standards, applicable Standards on Assurance Engagements and applicable legal and regulatory requirements;
- (b) the results of the audit procedures and the audit evidence obtained; and
- (c) significant matters arising during the audit and the conclusions reached thereon.

~~102.~~103. The form, content and extent of audit documentation depend on factors such as:

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

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

Nature of Documentation

~~103.~~104. Audit documentation may be recorded on paper, electronically or on other media. It includes, for example, audit programs, analyses, records of audit testing and results of that testing, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondence (including email) concerning significant matters. Abstracts or copies of the SMSF's records, for example, significant and specific contracts and agreements, may be included as part of audit documentation if considered appropriate. Checklists and audit work programs without supporting audit evidence is not considered to be appropriate audit evidence. ~~Audit documentation, however, is not a substitute for the SMSF's accounting records.~~

~~104.~~105. Oral explanations ~~by~~ to the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation. It is essential for the auditor to collate and retain an audit file containing the audit documentation. Even though SMSF audits are not conducted under the Corporations Act 2001, the retention period for audit working papers is generally accepted to be at least seven years⁵⁴ after the date the audit report is signed.

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

- ~~105.~~**106.** ASA 230 requires the auditor in documenting the nature, timing and extent of audit procedures to record by whom and when the audit work was performed and, if applicable, who reviewed the audit work and the extent of the review.
- ~~106.~~**107.** The auditor completes the assembly of the final audit file on a timely basis after the date of the auditor's report. This facilitates justification and verification that appropriate audit procedures were performed in the audit. Quality reviews, internal and external, are able to be performed more quickly and efficiently if a file is constructed in an orderly and logical manner.
- ~~107.~~**108.** Under ASA 230, the auditor is required to adopt appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation.

Significant Matters

- ~~108.~~**109.** The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation. The preparation of such a summary may assist the auditor's consideration of the significant matters. In addition, ASIC's competency standards⁵⁵ require the auditor to prepare a summary of findings relating to both compliance matters and matters relating to the financial report for each SMSF audit.
- ~~109.~~**110.** Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:
- Matters that give rise to significant risks (as defined in ASA 315).
 - Results of audit procedures indicating that the financial information could be materially misstated; or a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
 - Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
 - Findings that could result in a modification to the auditor's report.
- ~~110.~~**111.** If the auditor identifies information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor documents how the contradiction or inconsistency has been addressed in forming the auditor's final opinion.

Representations

- ~~112.~~**112.** Under ASA 580 and ASAE 3100, the auditor seeks written representations from the trustees regarding financial and compliance matters. These written representations are generally in the form of a representation letter which may confirm both verbal representations made during the course of the audit as well as other matters requiring written confirmation.
- ~~111.~~**113.** In instances where the auditor's contact with the trustees is limited and may only be at the conclusion of the engagement, the auditor considers obtaining certain representations from the trustees at the planning stage of the engagement. For example representations over eligibility of trustees, safe-guarding of assets and fraud.
- ~~112.~~**114.** With respect to the financial audit of a SMSF, under ASA 580, the auditor obtains written representations from the trustees, including that they:

⁵⁵ See ASIC Class Order 12/1687 paragraph 48.

- Acknowledge responsibility for the fair presentation of the financial report in accordance with the adopted applicable financial reporting framework.
- Have approved the financial report.
- Confirm specified matters material to the financial report, when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- Acknowledge their responsibility for the design and implementation of internal control to prevent and detect error.
- Believe the effect of uncorrected misstatements aggregated by the auditor ~~are~~ is immaterial, both individually and in aggregate, to the financial report.

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

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

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

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

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

Service Organisations

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

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

These management services may take various forms including WRAP⁵⁶ accounts, individually managed portfolio services, individual mandates or platform investments. Further guidance is provided in GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.

- ~~118.~~120. The use of a service organisation by a SMSF may render the audit evidence required less readily accessible to the auditor if the service organisation provides some of the record keeping or compliance functions of the SMSF.
- ~~119.~~121. Nevertheless, location of audit evidence at the service organisation does not alter the overall scope and objective of the financial audit and compliance engagement of the SMSF. Therefore, it remains the responsibility of the auditor to obtain sufficient appropriate audit evidence to support the auditor's financial audit and compliance assurance opinions. The requirements of the AUASB Standards relating to obtaining sufficient appropriate evidence on which to form an opinion are the same as would apply if the records and supporting documentation were maintained by the SMSF.
- ~~120.~~122. The use of a service organisation may provide the auditor with the opportunity to reduce substantive testing for balances and transactions maintained by the service organisation, if reliance can be placed on the service organisation's controls. ASA 402 establishes requirements and provides guidance regarding the use of controls reports from service organisations as evidence for a financial audit where a report is prepared by the service organisation under ASAE 3402 (including GS 007). ASIC Class Orders *Investor Directed Portfolio Services Provided Through a Registered Managed Investment Scheme* (CO 13/762) and *Investor Directed Portfolio Services* (CO 13/763) provide further guidance where the services provided to the SMSF are investor directed portfolio services. In addition, GS 007 provides further guidance where the services provided to the SMSF are investment management services. Controls reports prepared under ASAE 3402 including GS 007 reports, or CO 13/763, CO 13/762, are not intended to provide any assurance with respect to controls over compliance with SISA or SISR and consequently those reports may not contain any evidence of the operating effectiveness of controls over compliance. ~~Nevertheless, where controls over compliance with the requirements of SISA and SISR relevant to the SMSF are included in the controls report prepared by a service organisation, then it may provide the auditor with the opportunity to reduce substantive testing over compliance matters maintained by the service organisation.~~ Where a custodian is engaged by the fund, the auditor performs additional procedures to confirm that the fund has complied with the relevant SIS requirements.
- ~~121.~~123. Operators of IDPSs⁵⁷ and IDPS-like services are required by CO 13/763⁵⁸ or CO 13/762⁵⁹ to obtain an auditor's report providing:
- (a) an opinion as to whether the internal controls and other procedures of the relevant IDPS or IDPS-like operator and other persons acting on behalf of the relevant operator were suitably designed and operated effectively in all material respects to ensure that the annual investor statements, quarterly reports and any information that is made accessible electronically, are not materially misstated; and
 - (b) an opinion as to whether the aggregate of assets, liabilities, revenue and expenses in the annual investor statement for the relevant IDPS or IDPS-like financial year have

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

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

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

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

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

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

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

Using the Work of a Service Auditor

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

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

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

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

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

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

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

Using the Work of an Expert

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

~~127.~~128. When using the work of a management's expert, ASA 500 paragraph 8 and ASAE 3100 require the auditor to obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the audit. In doing so, the auditor evaluates:

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

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

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

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

- ~~(a) — evaluates the competence, capabilities and objectivity of the actuary;~~
- ~~(b) — evaluates the adequacy of the scope of the actuary's work for the purposes of the audit;~~
- ~~(c) — evaluates the appropriateness of the actuarial certificates as audit evidence; and~~
- ~~(d) — assesses whether the actuary's findings are properly reflected in the financial report.~~

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

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

- ~~(a) — Actuarial report for defined benefits funds, covering the value of assets, adequacy of assets to meet accrued benefit liabilities, recommended contribution rates and the SMSF's financial position, prepared:~~
 - ~~(i) — on establishment or conversion to the defined benefit fund;^{60,61}~~
 - ~~(ii) — triennially when in the accumulation phase;⁶² and~~
 - ~~(iii) — annually when in pension mode.⁶³~~
- ~~(b) — Funding and solvency certificate for defined benefit funds, covering solvency and the minimum contributions required to secure the SMSF's solvency, for provision to employer sponsors,⁶⁴ prepared:~~
 - ~~(i) — on establishment of the defined benefit fund;⁶⁵~~
 - ~~(ii) — within 3 months of the expiry of the existing certificate;⁶⁶~~
 - ~~(iii) — on occurrence of a notifiable event;⁶⁷ and~~

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

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

⁶⁰ Regulation 9.29 of the SISR.

⁶¹ Since May 2004, establishment of or conversion to defined benefits funds is no longer permitted.

⁶² Regulation 9.29 of the SISR.

⁶³ Regulation 9.29A of the SISR.

⁶⁴ Regulation 9.09 of the SISR.

⁶⁵ Regulation 9.11 of the SISR.

⁶⁶ Regulation 9.14 of the SISR.

⁶⁷ Regulation 9.13 of the SISR.

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

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

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

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

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

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

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

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

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

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

132.

⁶⁸ See Section 295-390 of the ITAA 1997.

PART A – FINANCIAL AUDIT

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

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

Financial Reports

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

135. An accumulation fund, or defined contribution fund,⁷⁰ is a fund which is not a defined benefits fund.⁷¹ The benefits payable to members on satisfying a condition of release in an accumulation fund are determined by the accumulated contributions made to the fund and the investment income thereon, as well as any insurance benefit available, less any expenses or other deductions.

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

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

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

- ~~(i) a statement of financial position; and~~
- ~~(ii) an operating statement; ~~or~~.~~

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

- ~~(i) — a statement of net assets; and~~
- ~~(ii) — a statement of changes in net assets.~~

These are special purpose financial reports, under the Accounting Standards framework.⁷⁵ Funds, where the benefits are wholly determined by reference to life assurance policies,

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

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

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

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

⁷³ Section 35B of the SISA.

⁷⁴ Regulation 8.01 of the SISR.

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

~~138. The key differences in the two types of financial reports are that:~~

- ~~(a) A statement of financial position includes the liability for accrued benefits whereas a statement of net assets refers to the liability for accrued benefits only in a note to the financial statements. A statement of net assets is prepared where the defined benefit fund does not have an actuarial valuation of the liability for accrued benefits at the reporting date and so it cannot be included on the face of the statement.~~
- ~~(b) A statement of changes in net assets, in addition to including all of the items in an operating statement, shows the opening and closing balances of net assets available to pay benefits and includes benefits paid in order to reconcile those balances.~~

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

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

⁷⁵ See Regulations 8.02 and 8.03 of the SISR.

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

Assertions and Audit Evidence

~~140.~~138. In representing that the financial report gives a fair presentation of the SMSF's position, results and disclosure during the reporting period and is prepared in accordance with the applicable financial reporting framework, the trustees make assertions implicitly or explicitly (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures.

~~141.~~139. In accordance with ASA 315, the auditor uses assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures.

~~142.~~140. Assertions used by the auditor fall into the following categories:

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

- (iii) *Classification and understandability* - financial information is presented and described appropriately, and disclosures are expressed clearly.
- (iv) *Accuracy and valuation* - financial and other information is disclosed fairly and at appropriate amounts.

Materiality

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

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

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

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

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

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

Opening Balances

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

- (a) the opening balances (account balances which exist at the beginning of the period) do not contain misstatements that materially affect the current period's financial report;
- (b) the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated (prior year audited figures are restated if a prior year error is material); and
- (c) appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial report or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

- ~~148:~~146. When the prior period's financial report was audited by another auditor, the current auditor may be able to obtain sufficient audit evidence by reviewing the predecessor auditor's working papers. In these circumstances, the current auditor considers the professional competence and independence of the predecessor auditor. If the prior period's auditor's opinion was modified, under ASA 705, the auditor pays particular attention in the current period to the matter which resulted in the prior period modification.
- ~~149:~~147. Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the relevant ethical requirements.
- ~~150:~~148. ~~If the prior period's financial report was not audited or when~~ When the auditor is not able to obtain sufficient appropriate audit evidence by examining the work of the previous auditor, the auditor undertakes further audit procedures to obtain sufficient appropriate audit evidence to ascertain whether the opening balances are stated fairly.
- ~~151:~~149. Ordinarily, some audit evidence may be obtained as part of the current period's audit procedures for the opening balances of current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other ~~smaller material~~ items may provide sufficient appropriate audit evidence. For investments and material balances, the auditor examines the accounting records and other information underlying the investments which may contain the opening balances of such investments. In certain cases, the auditor may be able to obtain confirmation of opening balances with third parties such as share registries or fund managers. When the auditor cannot obtain this information, the auditor may need to carry out additional audit procedures to verify the opening balances.
- ~~152:~~150. If audit procedures do not result in sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's report is modified. Further guidance on modifications to the auditor's report is provided in paragraphs ~~260 250~~ to ~~267~~257.

Cash and Cash Equivalents

- ~~153:~~151. Cash and cash equivalents include bank accounts, cash management trusts and other cash transactional facilities held with banks, fund managers, credit unions and other approved financial or deposit taking institutions. These accounts provide either a paper based record or electronic record of transactions and may have cheque, direct debit or internet banking facilities.
- ~~154:~~152. The audit assertions for auditing a SMSF's cash and cash equivalents are:
- Existence – obtaining evidence that the cash exists.
 - Rights and obligations (ownership) – obtaining evidence that the cash is owned directly or beneficially by the SMSF.
 - Completeness – obtaining evidence that all cash owned by the SMSF is recorded.
 - Valuation and allocation – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.
- ~~155:~~153. Cash and cash equivalents are a SMSF's most liquid assets and so may carry a high fraud risk. The auditor remains alert to fraud and the risk of fraud with respect to the SMSF's bank accounts. ~~The auditor makes enquires regarding who has access to the account via internet or phone banking and access to cheque books.~~ The auditor assesses the internal controls surrounding the authorisation of payments and receipts to ascertain whether the cash of the SMSF ~~are~~is safeguarded adequately. The auditor remains sceptical of transactions in the bank accounts that may relate to early access or fraud perpetrated not only by the members or trustees but by those related parties that may have access to fund's bank accounts.

~~156:~~**154.** If the banking operations are significant to the audit, the auditor sends bank confirmation requests⁷⁶ to the SMSF's banks. A bank confirmation is a request to a bank to provide independent confirmation for audit purposes of such information as the SMSF's account balances, securities, treasury management instruments, documents and other related information held by the bank on behalf of the SMSF. The confirmation will also seek to identify any deliberate or inadvertent borrowings with the bank.

~~157:~~**155.** Some SMSFs may utilise a cash account established with their broker, investment account or other investment platform (for example, IDPS) as part of their securities trading activity. This account may facilitate trading, settlement and receipt of dividends and interest. The auditor establishes who has access to this account and who may authorise transactions to ensure that only authorised investment trading takes place. ~~The auditor also needs to obtain sufficient audit evidence that the controls at the broker, investment account or other investment platform are effective.~~

Investments

~~158:~~**156.** The investments of a SMSF may include:

- Listed securities.
- Fixed rate securities such as government, semi-government or corporate bonds, loans (secured or unsecured) and mortgages.
- Variable rate and discount securities such as bank bills, promissory notes or floating rate notes.
- Hybrid securities which have both interest and equity components, such as convertible notes or converting preference shares.
- Managed products such as units in managed funds, managed investment schemes, PSTs and insurance policies.
- Unlisted investments including shares and units in widely held entities.
- Unlisted investments including shares and units in closely held or related entities.
- Derivatives such as futures, options and warrants.
- Assets subject to limited recourse borrowing arrangements.
- Real property.
- Collectables and personal use assets⁷⁷ such as artwork, antiques, wine; and recreational boats.

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

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

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

⁷⁶ For an example of a Bank Audit Confirmation, refer to GS 016.

⁷⁷ Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

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

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

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

~~162.~~^{160.} The audit procedures relating to investments will vary depending on the administration and management arrangements adopted by the trustees, the type of investments held and the trustee structure that holds the assets. The auditor exercises professional judgement in determining the appropriate auditing procedures.

Existence and Ownership

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

Completeness

~~164.~~^{162.} The auditor ensures that all investments of the SMSF have been recorded at the correct amounts and in the correct period. The auditor reviews supporting documentation to ensure that no **material** asset of the SMSF has been excluded. This may extend to obtaining investment schedules from previous years and examining them for changes and movements and reconciling the schedules with purchase and sale transactions for the current period to ensure that all movements in investments have been recorded. The auditor may also obtain representations from the trustees that they have provided a full disclosure of all assets of the SMSF and made available all records relating to those assets.

Valuation and Allocation of Assets

~~165.~~^{163.} As the SMSF's financial report is generally a special purpose financial report, the trustees choose the financial reporting framework under which the SMSF reports. Trustees exercise their discretion when determining the most appropriate market value⁷⁸ to be applied to each investment of the SMSF. Under ASA 800, the auditor's responsibility is to form an opinion regarding fair presentation in accordance with the identified financial reporting framework or identified basis of accounting. Under ASA 540, the auditor is required to obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the SMSF's applicable financial reporting framework. The auditor evaluates whether the valuation method employed is consistent with the financial reporting framework adopted and the policies described in the accounting policy notes, whether the method of measurement is appropriate in the circumstances and that the method adopted has been applied consistently.

~~166.~~^{164.} When preparing year end accounts, SMSFs² assets are required to be valued at market value.⁷⁹ Market value is defined in the SISA⁸⁰ and the ATO's guidance on the process to

⁷⁸ See Regulation 8.02B of the SISR.

⁷⁹ See Regulation 8.02B of the SISR.

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

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

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

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

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

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

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

- (a) the insurance exists;
- (b) the SMSF is both the owner of the asset and the beneficiary of the policy;
- (c) the premium is paid by the SMSF; and
- (d) the cover is effected and current.

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

IDPS and Other Service Organisations

~~174.~~**172.** Whilst the auditor of a SMSF may be able to rely on the annual investor statement and auditor's report provided in relation to an IDPS⁸¹ or a service organisations report under

⁸⁰ See Subsection 10(1) of the SISA.

⁸¹ See paragraph ~~124-123~~ of this Guidance Statement for a description of IDPS reports.

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

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

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

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

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

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

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

Receivables and Prepayments

- ~~180.~~178. Where the SMSF accounts on an accruals basis, receivables may include contributions, interest or trust distributions receivable and current tax assets. Receivables are tested primarily for existence, valuation and allocation by confirming the receipt in the subsequent period.
179. If the SMSF accounts on an accruals basis and invests in managed funds that pay distributions post balance date, the auditor verifies that the SMSF has accrued these distributions of income correctly and consistently and that the investment value of the underlying asset has been adjusted accordingly.
- ~~181.~~
- ~~182.~~180. Prepayments are tested against cash payments and particular attention paid to transactions with related parties to ensure they relate to a genuine expense.

Liabilities

- ~~183.~~181. Liabilities of a SMSF, other than accrued benefits which are discussed separately, may include:
- ~~Benefits payable, including benefits arising from insurance claims.~~
 - ~~Bank overdrafts, other borrowings and related interest payable.~~
 - Goods and Services Tax (GST) payable, if the SMSF is registered for GST.
 - Income tax liabilities, current and deferred.
 - Accruals for accounting and audit fees.
 - Liabilities relating to limited recourse borrowing arrangements.
 - Any other accrued expense the trustees have provided for or incurred.
 - Benefits payable, including benefits arising from insurance claims.
 - Bank overdrafts, other borrowings and related interest payable.
- ~~Many of these liabilities will only be recorded if the SMSF accounts on an accruals basis.~~
- ~~184.~~182. The audit assertions with respect to a SMSF's liabilities are:
- Existence – the liabilities exist.
 - Rights and obligations (ownership) – the liabilities are obligations of the SMSF.
 - Completeness – all liabilities of the SMSF have been recorded.
 - Valuation and allocation – liabilities are recorded at appropriate amounts and allocated to the appropriate account.
- ~~185.~~183. Generally, SMSFs are not allowed to borrow. Permitted exceptions are temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions surcharge,⁸² settlement of securities transactions where the borrowing was unforeseen or borrowings under limited recourse borrowing arrangements. Sections 67, 67A

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

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

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

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

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

~~188. Many SMSFs record expenses on a cash basis with little or no adjustments for prepayments or accruals. Where expenses are accrued, the auditor reviews the basis for accrual and determines whether the expense was paid subsequent to year end.~~

Accrued Benefits

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

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

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

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

- Existence – the accrued benefits are entitlements of members.
- Rights and obligations (ownership) – the accrued benefits are obligations of the SMSF.
- Completeness – ~~all~~ accrued benefits of each member of the SMSF have been recorded.
- Valuation and allocation – accrued benefits are recorded at appropriate amounts and allocated to the appropriate account/member.

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

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

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

Vested Benefits

- ~~193.~~ **190.** Vested benefits are those benefits to which the member is currently entitled irrespective of the member's continued membership of the SMSF, on-going employment with a particular employer or maintenance of other conditions. Although vested benefits are an unconditional benefit of the member within the SMSF, those benefits can be accessed only upon satisfying an appropriate condition of release, such as retirement, death, rollover, reaching age 65 or reaching at least preservation age⁸³ and accessing a transition to retirement income stream. Usually vested benefits are disclosed in the notes to the financial statements.
- ~~194.~~ **191.** Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member concessional and non-concessional contributions, mandated contributions (compulsory employer contributions) such as Superannuation Guarantee (SG) contributions or superannuation payments made pursuant to an Award or other employment agreement, amounts rolled over or transferred in as minimum benefits and the earnings thereon. ~~Some older SMSFs may have a vesting scale which provides for certain contributions and earnings to progressively vest.~~ Minimum benefits *must* be maintained in the SMSF until they are cashed, rolled over or transferred in accordance with the SISA and SISR benefit payment rules.⁸⁴
- ~~195.~~ **192.** Audit procedures to test for vesting of minimum benefits include examining the fund's governing rules to ensure that the governing rules fully vest the contributions in the member and testing member and employer contributions for the period ~~to for~~ inclusion in members' accounts. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefits are not being reduced.
- ~~196.~~ ~~In circumstances where the SMSF is converting from a defined benefit fund to an accumulation fund, the auditor examines whether the conversion will adversely affect members' rights to minimum benefits. Ordinarily, the auditor reviews the actuarial advice issued in relation to the conversion and the resultant figures derived.~~

Reserves

- ~~197.~~ **193.** A reserve is an amount held within a SMSF that is not allocated specifically to members. Generally, reserves are permitted unless specifically prohibited under a SMSF's governing rules. Typically, reserves are created from contributions not being allocated to a member upon receipt or from excess investment returns ~~or in accordance with actuarial requirements~~.
- ~~198.~~ **194.** Types of reserves permitted for SMSFs may include, but are not limited to:
- Investment.
 - Solvency Contribution.
 - Miscellaneous.
- ~~199.~~ **195.** Investment reserves are used to smooth returns ~~and assist with meeting payment obligations for some defined benefit pensions~~.

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

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

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

201. ~~197.~~ Miscellaneous reserves can be created by the death of the last defined benefit pensioner within the SMSF with the residual sums being transferred to the miscellaneous reserve. They can also be created intentionally for other purposes.

202. ~~198.~~ Contributions received are required by the SISR⁸⁵ to be allocated to members within 28 days of the end of the month in which they are received⁸⁶. If a SMSF receives a contribution during a financial period and that contribution is not allocated to a member in that period, the amount should be classified as an “unallocated contribution”⁸⁷ at balance date. The unallocated contributions account is similar in nature to a reserve, but contains only contributions held temporarily until they are allocated. Earnings and expenses may not be debited or credited to the unallocated contributions account.

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

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

- The fund’s governing rules 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 reserves are appropriate.
- ~~Actuarial recommendations are met~~ The fund has a reserve strategy⁸⁸.

Investment and Other Revenue

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

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

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

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

⁸⁵ See Regulation 7.08 of the SISR.

⁸⁶ See Regulation 7.08 of the SISR.

⁸⁷ See TD 2013/22 applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.

⁸⁸ See section 52B(2)(g) of the SISA.

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

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

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

Contributions and Transfers In

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

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

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

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

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

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

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

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

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

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

Expenses

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

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

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

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

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

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

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

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

~~215.~~211. Ordinarily, the auditor reviews any payments made to individual trustees or corporate trustees to validate that the payment was *bona fide* and not an early benefit or a payment for services to the SMSF, which are prohibited⁹¹.

Tax Expense

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

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

⁹¹ See section 17(B) of the SISA.

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

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

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

Ordinary Income

219.215. The ordinary income of the SMSF for tax purposes includes:

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

220.216. Ordinary income does not include:

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

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

Contributions

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

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

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

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

224.220. Upon the sale of certain small business assets, members may be able to contribute some or all of the sale proceeds to the SMSF and may be eligible to exclude all or part of the contribution from the non-concessional contributions cap. In these circumstances, the auditor examines the documentation surrounding the contribution and verifies that any small business capital gains tax (CGT) concessional contributions have been calculated appropriately and classified correctly confirms the contribution is supported by a Capital Gains Tax Election Form⁹⁵.

Non-arm's Length Income

225.221. Non-arm's length⁹⁶ income of a SMSF, which includes private company dividends (unless arm's length), income from non-arm's length transactions and certain discretionary trust distributions, is not taxed concessional. The auditor checks that any non-arm's length income has been classified correctly.

Franked Dividends

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

Capital Gains Tax

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

Goods and Service Tax

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

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

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

⁹⁵ See ATO form NAT 71161.

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

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

Deductions

~~229.~~ 225. Expenses incurred by a SMSF may be deductible by the SMSF under the ITAA subject to the normal principles governing the tax deductibility of expenditure incurred by superannuation funds.⁹⁷ The auditor tests the deductions claimed to verify their occurrence, deductibility and that they were incurred by the SMSF and were not personal in nature, or if they were shared, the correct proportion of the expense has been claimed by the SMSF. In general, the following expenses are deductible – administration fees, actuarial costs, accountancy and audit fees, investment management fees and custody fees. Other expenses such as capital allowances (depreciation) may be deductible depending on the circumstances of the SMSF. Depending on the type of insurance policy, the insurance premium may also be deductible, in part or in full. The auditor may also check that capital items have been correctly treated, as items of a strictly capital nature ~~may and are~~ not be tax deductible.

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

Actuarial Reports for Un-segregated Assets

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

Benefits Paid

~~232.~~ 228. Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65, death, ~~ill health~~ physical or mental incapacity,⁹⁹ termination of employment, ~~request to rollover their benefit to another complying superannuation fund, or reaching preservation age and commencement of a transition~~¹⁰⁰ to retirement¹⁰¹ income stream¹⁰² (upon turning 55) or commencement of an income stream upon the member retiring or turning 65.¹⁰³ In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.¹⁰⁴

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

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

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

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

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

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

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

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

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

- (a) account based income streams, including transition to retirement income streams; and
- (b) existing allocated pensions and market linked income streams (formerly known as market linked pensions).

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

- ~~(a) flexi pensions (also known as commutable life time pensions);~~
- ~~(b) life time income streams; or~~
- ~~(c) complying fixed term income streams.~~

~~Benefits may be paid to the member, the member's spouse, the member's financial dependant, the member's estate or another superannuation fund depending on the circumstances.~~

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

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

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

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

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

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

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

237.233. Upon the death of a pensioner, many SMSF pensions are reversionary and continue to pay the pension to the surviving spouse or reversionary beneficiary. The reversionary feature is generally established at commencement of the pension, but some fund's governing rules may permit establishment under a discretionary power in the deed. The auditor, in the case of death of a pensioner with a reversionary benefit, checks that the pension is being paid to the nominated reversionary beneficiary and that the benefit has not been transferred to reserves or paid out as a lump sum.

Divorce and Splitting of Benefits

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

- (a) Superannuation agreement – negotiated between the divorcing parties and certified by two legal practitioners who represent the respective divorcing parties.
- (b) Consent order – an order of the court frequently negotiated between two legal practitioners who represent the respective divorcing parties and submitted to the court for approval.
- (c) Arbitrated court order – where the divorcing parties are unable to agree on the settlement terms and the court decides the settlement amount and terms.
- (d) Notice by a non-member.¹⁰⁷
- (e) Notice by a trustee of information regarding an interest subject to a payment split.¹⁰⁸
- (f) Payment split notice by a trustee to both member and non-member.¹⁰⁹
- (g) One of the following notices by the non-member spouse to the trustees to:
 - (i) create a new interest;¹¹⁰
 - (ii) rollover or transfer benefits;¹¹¹
 - (iii) pay a lump sum where non-member has met a condition for release.¹¹²

239.235. Once an order or agreement has been executed properly, the trustees are required to implement the order or agreement. In general, this may mean one of the parties exits the SMSF. Where there is a two member SMSF, the exiting member may take part of the other party's interest as well as their own. The auditor then treats the exit as per a normal member rollover or cashing out of a benefit. The auditor is careful to ensure that the capital gains issues are addressed, and that the tax components and preservation status of the superannuation payments are maintained. If a member exits the SMSF, the remaining trustee needs to ensure compliance with section 17A by:

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

¹⁰⁷ See ~~n~~Notice under regulation 72 of the *Family Law (Superannuation) Regulations 2001*.

¹⁰⁸ See ~~n~~Notice under regulation 2.36C of the SISR.

¹⁰⁹ See ~~n~~Notice under regulation 7A.03 of the SISR.

¹¹⁰ Notice-See ~~notice~~ under regulation 7A.03C or 7A.05 of the SISR.

¹¹¹ See ~~n~~Notice under regulation 7A.03D or 7A.06 of the SISR.

¹¹² See ~~n~~Notice under regulations 7A.03E or 7A.07 of the SISR.

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

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

Other Audit Considerations

Going Concern

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

~~242.~~238. To view a SMSF as a going concern, the SMSF is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. For a SMSF, the primary concern is whether the SMSF will be able to pay benefits and entitlements to members, in addition to tax, audit and other expenses, payable over the coming year. If the SMSF is in an unsatisfactory financial position for the purposes of reporting under SISA section 130,¹¹⁴ the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.

~~243.~~239. ~~For an accumulation fund,~~ 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.¹¹⁵ An accumulation fund is technically insolvent under the SISR if the net realisable value of the assets of the SMSF is less than the minimum guaranteed benefits to members.¹¹⁶

~~244. For a defined benefit fund, the value of accrued benefits may be an indicator of future funding deficiencies and inadequacies in the current contribution arrangements in funding future benefits that may arise. Therefore, the auditor determines whether the value of accrued benefits exceeds the value of the SMSF's net assets. If this is the case, the SMSF may not be a going concern, so the auditor undertakes further audit procedures to investigate the deficiency, including determining whether:~~

- ~~(a) The net assets exceed the value of vested benefits;~~
- ~~(b) the SMSF has a current actuarial funding and solvency certificate;¹¹⁷ or~~

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

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

¹¹⁵ See rRegulation 9.38(1) of the SISR.

¹¹⁶ See rRegulation 9.35 of the SISR.

~~¹¹⁷ Regulation 9.90 of the SISR.~~

- (c) ~~the SMSF is technically insolvent under the SISR, due to the minimum benefit index¹¹⁸ being less than 1¹¹⁹ and if so, whether an actuarially determined technical insolvency program has been initiated by the trustees and a special funding and solvency certificate has been obtained.~~
245. ~~A deficiency in net assets with respect to the value of vested benefits of a defined benefits fund indicates that the SMSF may be experiencing going concern problems and the auditor assesses the actuarial certificates and any technical insolvency program in place to determine if this deficiency can be overcome. The auditor considers:~~
- (a) ~~whether the employer has been making contributions in accordance with the actuarially determined recommendations in the funding and solvency certificate;~~
- (b) ~~the employers' or members' ability to remediate the funding deficiency in the long term, including any material uncertainties regarding their ability to do so; and~~
- (c) ~~whether the pension or income streams have been commuted to a lower pension after period end, such that the SMSF's assets will be sufficient to fund the reduced pension or income stream.~~
246. ~~The trustee of a defined benefits fund is required to obtain an actuarial funding and solvency certificate.¹²⁰ The actuary certifies the solvency of the SMSF as at the effective date of the certificate and the minimum contributions expected to be required to secure the solvency of the SMSF on the expiry date,¹²¹ which may be between one to five years after the effective date of the certificate. The auditor checks whether the certificate has ceased to have effect due to any of the reasons set out in the SISR,¹²² including expiry of the certificate or occurrence of a notifiable event.~~
247. ~~If the SMSF is technically insolvent, the auditor ascertains whether a special funding and solvency certificate has been obtained by the trustee and a technical insolvency program initiated, to ensure that the SMSF is in a solvent position within five years, or alternatively winding up proceedings have been initiated, as required under the SISR.¹²³ The auditor assesses whether any technical insolvency program enables the SMSF to continue as a going concern. If winding up proceedings have commenced the SMSF is not a going concern.~~
- ~~248.~~ **240.** Having considered the matters above, under ASA 570, the auditor may conclude that either:
- (a) an unmodified auditor's opinion may be issued due to the fact that:
- (i) the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the SMSF, for the financial report to be prepared on a going concern basis; or
- (ii) there is adequate disclosure of the principal conditions which caused the auditor to question the going concern basis, including, as appropriate, the trustees' evaluation of their significance and possible effects and any funding plans and other mitigating factors; or
- (b) a modified auditor's opinion is necessary due to the existence of a material uncertainty which may cast significant doubt on the SMSF's ability to continue as a going concern, expressed as either:

¹¹⁸ ~~The minimum benefits index is calculated in accordance with regulation 9.15 of the SISR.~~

¹¹⁹ ~~Regulation 9.21 of the SISR.~~

¹²⁰ ~~Regulation 9.09 of the SISR.~~

¹²¹ ~~Regulation 9.10 of the SISR.~~

¹²² ~~Regulation 9.12(2) of the SISR.~~

¹²³ ~~Regulation 9.17 of the SISR.~~

- (i) an emphasis of matter section in the auditor's report regarding a going concern uncertainty, where there is adequate disclosure of the uncertainty; or
- (ii) a qualified or adverse opinion in the auditor's report, where there is inadequate disclosure of the uncertainty; or
- (c) a modified auditor's opinion is necessary, due to the fact that the SMSF will not be able to continue as a going concern where the financial report had been prepared on a going concern basis, expressed as an adverse opinion.

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

Subsequent Events

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

251. ~~243.~~ The auditor's response to the subsequent events depends on the potential for such events to affect the financial report and the appropriateness of the auditor's opinion. For example, if the trustees decide to wind up the SMSF, this would be a material event requiring appropriate disclosure and amendments to the financial report. Whereas, if an immaterial investment of the SMSF became worthless, this may not warrant any amendment.

Winding-Up

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

253. ~~245.~~ Upon winding-up, an audit is performed with increased testing in the areas of:

- Liquidated investments – to determine whether they were realised for cash or transferred in-specie and what value was received.
- Benefit payments – to test that they are bona fide, calculated correctly and paid to the correct individual ~~and the recipients have met a condition of release with the correct amount of tax deducted and remitted.~~
- Cash – to ensure there are no transactions post balance date and that the balance is nil at balance date.
- Rollovers – to test whether they were paid to complying superannuation funds, ~~where applicable.~~

Change of Auditor

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

the report was modified. ~~Any contributions and benefit payments made prior to the transfer date are tested substantively.~~

Anti-Money Laundering

~~255.247.~~ The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) is legislation designed to deter money laundering and terrorism financing. The AML/CTF Act sets out which entities are reporting entities and then imposes obligations on them when they provide one or more of the 'designated services' as set out in the AML/CTF Act. ~~Currently~~, SMSFs do not provide a designated service and accordingly are not required to report under the AML/CTF Act.¹²⁴ Auditors of SMSFs also have no formal AML/CTF reporting obligations, but they remain alert to potential money laundering or terrorist activities and report suspicions voluntarily, if appropriate. ~~For newly established SMSFs, auditors of SMSFs would typically check for the 100 point identification as part of the application process.~~

Reporting

~~256.248.~~ With respect to the financial audit, the SISA, section 35C, requires the auditor to:

- (a) ~~Give a report to the trustees, in the approved form, on the audit of the SMSF's financial report for the year of income; and of the operations of the entity for that year.~~
- (b) give the trustees the report in the approved form,¹²⁵ as issued by the ATO, within the prescribed time as set out in the SISR, being a day before the latest date stipulated by the ATO for lodgement of the Annual Return.¹²⁶

~~257.249.~~ ASA 700 requires the auditor to form an opinion as to whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. In order to form that opinion the auditor *shall* conclude as to whether the auditor has obtained reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error.

~~258.250.~~ ASA 220 requires that before the auditor's report is issued, the auditor performs a review of the audit documentation and conducts a discussion with the engagement team, in order to be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached.

~~259.251.~~ In forming an opinion, the auditor considers all relevant evidence obtained, regardless of whether it appears to corroborate, or to contradict, information contained in the financial report.

Modifications to the Auditor's Opinion

~~260.252.~~ Modifications to the auditor's opinion may be either:

- (a) a qualified opinion;
- (b) a disclaimer of opinion; or
- (c) an adverse opinion.

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

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

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

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

~~261.~~253. ASA 800 requires an auditor's report for a SMSF to include an emphasis of matter paragraph to highlight the financial report is prepared in accordance with a special purpose framework and as a result, the financial report may not be suitable for another purpose. The inclusion of an emphasis of matter paragraph does not affect the auditor's opinion, but draws the user's attention to the matter raised. ASA 706 contains the requirements and guidance regarding an emphasis of matter paragraph. The ATO approved auditor's report¹²⁷ contains the required wording.

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

- (a) that a material uncertainty exists regarding a going concern matter that is adequately disclosed in the financial report;
- (b) that additional disclosure is required to highlight that the financial report may be potentially misleading; or
- (c) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.

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

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

- (a) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.
- (b) that the financial report of the prior period was audited by the predecessor auditor, the type of opinion expressed, the reasons if the opinion was modified and the date of the report;
- (c) that the auditor's opinion on a prior period financial report differs from the opinion the auditor previously expressed;

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

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

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

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

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

¹²⁷ The ATO approved form auditor's report can be found on the ATO's website [www.ato.gov.au/Superfunds form NAT 11466](http://www.ato.gov.au/Superfunds/form%20NAT%2011466).

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

- | 266:~~258.~~ An adverse opinion is expressed when the effect of the misstatement is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor’s report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph is headed “Adverse Opinion”.
- | 267:~~259.~~ Whenever the auditor expresses an opinion that is other than unmodified, a clear description of all the substantive reasons is included in the auditor’s report and, unless impracticable, a quantification of the possible effect on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore are included in the basis for modification paragraph of the auditor’s report.

Communication of Audit Matters

- | 268:~~260.~~ Under ASA 260, the auditor communicates matters of governance interest arising from the audit to the trustees on a timely basis, to enable the trustees to take appropriate action. Ordinarily, the auditor initially discusses with the trustees and/or management those matters arising from an audit that are causing concern, including expected modifications, if any, to the auditor’s report. This provides the trustees with an opportunity to clarify facts and issues and to provide further information.
- | 269:~~261.~~ The auditor is also required under ASA 260 to inform the trustees of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the auditor during the audit that were determined to be immaterial, both individually and in the aggregate, to the financial report taken as a whole.
- | 270:~~262.~~ Under ASA 260, the communication may be made orally or in writing, however, to meet the documentation requirements of ASA 230, the matters communicated and any responses need to be documented in the working papers. Oral communications may need to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.
- | 271:~~263.~~ Under ASA 265, the auditor communicates deficiencies in internal control that the auditor has identified during the audit and that, in the auditor’s professional judgement, are of sufficient importance to merit their respective attentions.
- | 272:~~264.~~ Under ASA 250, any non-compliance which the auditor considers to be intentional and material, is communicated to the trustees without delay. The auditor’s statutory reporting responsibilities in relation to matters of non-compliance may also necessitate reporting of such matters to the trustees and the ATO under section 129 of the SISA (see paragraphs 359-366).⁴²⁸

⁴²⁸—Reporting under section 129 of the SISA is discussed in paragraphs 370 to 377.

PART B – COMPLIANCE ENGAGEMENT

²⁷³~~265.~~ The compliance engagement of a SMSF is driven by the provisions of the SISA and SISR specified in the approved form auditor's report and in the ACR, which comprise the compliance criteria for the engagement. These criteria can be grouped within the following categories:

- (a) establishment and operation of the SMSF;
- (b) sole purpose;
- (c) investment considerations;
- (d) benefits restrictions;
- (e) contributions restrictions;
- (f) investment returns;
- (g) solvency; and
- (h) other regulatory information.

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

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

Table 1: Summary of Criteria for Compliance Engagement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Category	Specific Criteria	Auditor's Report Part B SISA/SISR	ACR SISA/SISR
<u>Benefits restrictions</u>	Trustees maintain members' minimum benefits.	R.5.08	R.5.08
	Minimum pension amount to be paid annually.	R.1.06(9A)	-
	Restrictions on payment of benefits.	R.6.17	R.6.17
	Prohibition on assignment of members' superannuation interest.	R.13.12	-
	Prohibition on creating charges over members' benefits.	R.13.13	-
<u>Contributions restrictions</u>	Accepts contributions within specified restrictions.	R.7.04	R.7.04
<u>Investment returns</u>	Reserves to be used appropriately and investment returns <i>must</i> be allocated to members' accounts in a manner that is fair and reasonable.	R. 5.03	-
<u>Solvency</u>	Unsatisfactory financial position.	-	S.130 ¹⁴⁰
<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 ¹⁴¹

Materiality

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

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

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

276.

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

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

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

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

Establishment and Operation of the SMSF

~~277.~~**270.** In auditing the SMSF's compliance with the requirements regarding establishment and operation of the SMSF, the auditor conducts testing to determine that:

- (a) the SMSF meets the definition of SMSF;
- (b) the trustees are not disqualified persons;
- (c) the SMSF's minutes and records are retained for ~~the prescribed periods~~ at least 10 years;
- (d) the SMSF has and retains trustee declarations of duties signed by any new trustees after 30 June 2007 for at least 10 years;
- (e) the SMSF's accounting records are kept and retained for five years;
- (f) annual financial reports have been prepared for the SMSF, either signed by two individual trustees, two directors of the corporate trustee or the sole director of the corporate trustee, and retained for five years along with the SMSF's accounts;
- (g) the SMSF has not entered into any contract or act that may prevent or hinder the trustees from properly performing or exercising their powers and functions; and
- (h) an investment strategy which takes into account the risk, diversification, cash flows and liquidity of the SMSF has been formulated, given effect and reviewed regularly. The investment strategy must also consider if insurance is relevant to the members of the fund.

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

Definition of SMSF

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

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

¹⁴² See ~~s~~ subsection 35C(2) of the SISA.

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

- Obtaining trustee representations.

Disqualified Persons

~~279.~~272. An individual SMSF trustee is disqualified under the SISA¹⁴⁴ if they are:

- (a) convicted of an offence in respect of dishonest conduct;
- (b) the subject of a civil penalty order;
- (c) an insolvent under administration (includes an undischarged bankrupt under the *Bankruptcy Act 1966*); or
- (d) disqualified by the ATO.

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

- (a) ~~the a~~ responsible officer is a disqualified person; or
- (b) the company is in receivership, administration, provisional liquidation or has begun winding-up proceedings.

~~281.~~274. Ordinarily, the auditor verifies that the trustees are not disqualified by obtaining trustee representations to that effect. During the course of the audit the auditor remains alert to circumstances which may indicate that a trustee may be technically disqualified, such as personal financial difficulties or a trustee's involvement in legal proceedings. In this case, the auditor may make enquiries such as checking the trustee's details against APRA's disqualification register,¹⁴⁵ the National Personal Insolvency Index listing bankrupts, ASIC Company Register for Company Status or other commercial databases providing record search facilities.

Maintenance and Provision of SMSF Records

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

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

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

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

¹⁴⁴ See sSubsection 120(1) of the SISA. Also refer to ATO ID 2011/24 Waiver of disqualified person status – meaning of 'serious dishonest conduct'.

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

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

¹⁴⁷ See sSection 35A of the SISA.

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

Contracts Restricting Trustees' Functions and Powers

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

Investment Strategy

~~287.~~279. In the approved form auditor's report the auditor states that their procedures "included testing that the fund trustee has an investment strategy, that the trustee has given consideration to risk, return, liquidity, diversification, the insurance needs of the fund members, and that the fund's investments are made in line with that investment strategy". The SISR¹⁴⁹ requires the trustees of a SMSF to formulate, regularly review and give effect to an investment strategy that has regard to all the circumstances of the SMSF, including:

- The risk involved in making, holding and realising, and the likely return from, the SMSF's investments, having regard to its objectives and expected cash flow requirements.
- The composition of the SMSF's investments as a whole, including the extent to which they are diverse or involve exposure of the SMSF to risks from inadequate diversification.
- The liquidity of the SMSF's investments, having regard to its expected cash flow requirements.
- The ability of the SMSF to discharge its existing and prospective liabilities.
- Whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.

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

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

~~290.~~281. In order to determine whether the trustees have given effect to the investment strategy, the auditor assesses whether the investments made during the period are invested according to the documented investment strategy as approved by the trustees. The auditor obtains evidence as to whether the trustees have reviewed or modified their investment strategy during the period to accommodate the SMSF's changing needs and changes in the investment environment.

¹⁴⁸ See sSection 52(2)(e) of the SISA.

¹⁴⁹ See rRegulation 4.09 of the SISR.

¹⁵⁰ ~~Going concern, including liquidity issues, for defined benefit funds are discussed in paragraphs 241 to 249 of this Guidance Statement.~~

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

Sole Purpose

292.283. The SISA¹⁵¹ requires the trustees to ensure that the SMSF is maintained solely for one or more of the allowable core purposes and, in addition, may also be maintained for one or more of the allowable ancillary purposes. The allowable core purposes are the provision of benefits for each member on their retirement, attainment of a prescribed age or death prior to retirement or attaining the prescribed age. The allowable ancillary purposes are the provision of benefits for each member on termination of employment, cessation of work due to ill-health, death after retirement or attainment of a prescribed age, or a benefit approved by the ATO. The "sole purpose test" is a conceptual test that when satisfied demonstrates that the SMSF has in fact been maintained solely for the allowable purposes and requires a higher standard than maintenance of the SMSF for a dominant or principal purpose. The approved form auditor's report, in Appendix 3 of this Guidance Statement, requires the auditor to separately state that their procedures "included testing that the fund's governing rules establishes the fund solely for the provision of retirement benefits for fund members or their dependents in the case of a member's death before retirement".

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

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

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

295.286. In assuring compliance with the sole purpose test, the auditor looks for the provision of current day benefits, being benefits to a member or related party before the member's retirement, employment termination or death, and assesses whether those benefits fail the sole purpose test. ~~An asset of a SMSF which provides current day benefits to a related party is generally an "in-house" asset and, even if it does not breach the sole purpose test, it still cannot exceed, in combination with other in-house assets, the restriction on the value of in-house assets which may be held by the SMSF.~~ Furthermore, the SISR¹⁵² contains strict regulations in relation to collectables and personal use assets. In-house assets are discussed

¹⁵¹ See sSection 62 of the SISA.

¹⁵² See rRegulation 13.18AA of the SISR.

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

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

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

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

- The benefit is an inherent and unavoidable part of activities for allowable purposes.
- The benefit is remote, isolated or insignificant.
- The benefit is provided on arm's length commercial terms, at no cost or financial detriment to the SMSF¹⁵³
- The trustees comply with the covenants in section 52B of the SISA.
- The benefit relates to activities which are part of a properly considered and formulated investment strategy.

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

- Transactions not at arm's length¹⁵⁴
- Borrowings.¹⁵⁵
- Loans or financial assistance to members or relatives.¹⁵⁶
- Acquisitions from related parties.¹⁵⁷
- Charges over assets.¹⁵⁸
- Assignment of, or charges over, member's benefits.¹⁵⁹
- SMSF assets not held separately from the members' personal assets.¹⁶⁰
- Acquisition of "in-house" assets in excess of 5% of the total market value of the SMSF assets.¹⁶¹
- Collectables and personal use assets.¹⁶²

¹⁵³ — SMSFD 2010/1 provides guidance where a fund purchases trauma insurance for a member and considerations for compliance with s62 section 62 of the SISA.

¹⁵⁴ See sSection 109 of the SISA.

¹⁵⁵ Section 67 of the SISA.

¹⁵⁶ See sSection 65 of the SISA.

¹⁵⁷ See sSection 66 of the SISA.

¹⁵⁸ See rRegulation 13.14 of the SISR.

¹⁵⁹ See rRegulations 13.12 and 13.13 of the SISR.

¹⁶⁰ See sSection 52B(2)(d) of the SISA and SISR regulation 4.09A of the SISR.

¹⁶¹ See pPart 8 of the SISA.

¹⁶² See rRegulation 13.18AA of the SISR.

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

Running a Business

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

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

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

Units in a Related Unit Trust

~~302.~~ 293. Investments in related unit trusts, where trustees or members of the SMSF are also trustees of the related unit trust, are common SMSF investments. The auditor considers the sole purpose test in light of the investments held in, and by, the related unit trust to ensure that the investments held are for the long-term provision of allowable benefits to members and not to provide other benefits to the trustees, members or their relatives. The auditor ~~will~~ may also need to consider whether the investment breaches the prohibition on acquisitions from related parties, the prohibition on borrowings or exceeds the "in-house" asset limits¹⁶⁶. SIS obligations vary depending on the date the fund invested and whether the investment falls under the exception in Division 13.3A of the SISR.

Investment Considerations

~~303.~~ 294. The SISA contains a number of investment restrictions with which the trustees are required to comply. In assessing whether these prohibitions have been complied with, the auditor examines the nature of each material investment to ensure that the investment is permitted under the SISA.

¹⁶³ Also refer to SMSFR 2008/2: *The application of the sole purpose test in section 62 of the SISA to the provision of benefits other than retirement, employment termination or death benefits.*

¹⁶⁴ Section 67 of the SISA.

¹⁶⁵ Section 17A of the SISA.

¹⁶⁶ See paragraphs 309-312.

Collectables and personal use assets

~~304.~~295. Collectables and personal use assets under the SISA and SISR are permitted investments for SMSFs provided the asset was not acquired to provide a personal benefit for the member and other or their related parties ~~do not receive any personal enjoyment~~. Collectables or personal use assets¹⁶⁷ that are acquired by the fund on or after 1 July 2011 are subject to restrictions¹⁶⁸ contained in the regulation 13.18AA of the SISR including:

- Must not be leased to any related party¹⁶⁹ of the fund.
- Must not be stored or displayed in the private residence of any related party of the fund.
- Cannot be used by any related party of the fund.
- Trustees are required to make a written record of the reasons for the decisions on where to store the collectables and personal use assets and keep the record for 10 years.
- Insured in the name of the fund within seven days of acquisition.
- ~~Cannot be used by any related party of the fund.~~
- Transfers of ownership to related parties must be done at market value¹⁷⁰ determined by a qualified independent valuer.¹⁷¹

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

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

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

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

¹⁶⁷ Collectables and personal use asset list contained in Regulation 13.18AA(1) of the SISR.

¹⁶⁸ Restrictions are subject to transitional arrangements. Collectables and personal use assets held by funds prior to 30 June 2011 are not subject to restrictions until 1 July 2016, at which time, trustees will be required to comply with all restrictions. This transitional period provides SMSF trustees with existing investments in collectables and personal use assets time to comply with the rules.

¹⁶⁹ Related party is defined in Section 10(1) of the SISA.

¹⁷⁰ Market value is defined in Section 10(1) of the SISA.

¹⁷¹ Refer to ATO's Valuation guidelines for self-managed superannuation fund (web-based).

¹⁷² See Regulation 13.18AA(6) of the SISR.

¹⁷³ See Guidance on "in-house" assets is provided in paragraphs 309-299 to 312-301 of this Guidance Statement.

¹⁷⁴ See Regulation 13.18AA(6) of the SISR.

~~308.~~**298.** Generally, investments that provide an ancillary benefit as part of the investment need to be examined to determine whether the investment as a whole meets the sole purpose test. Ancillary benefits include, but are not limited to, such things as a discount on a product or service, priority access to a facility, upgrades or free products or services.

“In-house Assets”

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

~~310.~~**300.** The SISA has strict limits on the level of “in-house assets” permitted to be held by the SMSF. The market value of the in-house asset *must* not exceed 5% of the total market value of the SMSF’s assets at the time of acquisition¹⁷⁸ and at year end.¹⁷⁹ Also the trustees are prohibited from acquiring an in-house asset that would cause the total of all in-house assets to exceed this 5% ratio. The auditor examines the investments of the SMSF to identify potential in-house assets to ensure that the legislative limits are not exceeded either when they were acquired or at year end.

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

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

Acquisition of Assets from Related Parties

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

- (a) listed securities;
- (b) business real property;
- (c) in-house assets within the 5% ratio limit;
- (d) life insurance policies that are not acquired from a member or relative; or
- (e) assets which are ordinarily in-house assets but are exempted by the operation of paragraph 71(1) of the SISA; and
 - (i) the asset is acquired at market value; and
 - (ii) the acquisition would not result in a breach of the 5% ratio limit.

~~314.~~**303.** Business real property¹⁸² is land and buildings used wholly and exclusively for business purposes.¹⁸³ It does not extend to:

¹⁷⁵ Defined in subsection 10(1) of the SISA. Also refer to SMSFR 2009/4 the meaning of ‘asset’, ‘loan’, ‘investment in’, ‘lease’ and ‘lease arrangement’ in the definition of an ‘in-house asset’ in the SISA.

¹⁷⁶ Defined in subsection 10(1) of the SISA.

¹⁷⁷ See also regulations 13.22B, 13.22C and 13.22D of the SISR. SMSFR 2009/1 is also relevant to the definition of business real property and the exceptions under S71(1) of SISA.

¹⁷⁸ See sSection 83 of the SISA.

¹⁷⁹ See sSection 82 of the SISA.

¹⁸⁰ See sSection 85 of the SISA.

¹⁸¹ See sSection 66 of the SISA.

- (a) vacant land, unless used in primary production;
- (b) land used for property development or shares held in an unlisted property owning company; or
- (c) residential properties except where the residence provides accommodation that is in the nature of a business (e.g. for a motel); or the residence is on less than two hectares of a larger parcel of land which is predominately used in a form part of a primary production business and does not exceed two hectares in area or the provision of accommodation is in the nature of a business (e.g. for a motel).

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

~~316.~~305. Ordinarily, the auditor examines the documentation surrounding the purchase of material investments, other than those which fall into one of the exceptions above, to ascertain whether the vendor was a related party. This may involve checking the contract or sale document to confirm who the parties to the transaction were and, to the extent possible, their relationship with the trustees and members. The auditor makes enquiries in the planning phase of the audit in order to identify related parties, whether individuals or entities related to the trustees or members.

Arm's Length Investments

~~317.~~306. The SISA¹⁸⁵ requires the trustees and investment managers to invest and maintain the SMSF's assets at arm's length. Indicators of non-arm's length investments may include:

- Investments in a related party.
- Investments being managed by a related party.
- Details of parties to a contract indicate related parties.
- Uncommercial or disadvantageous terms of a lease or loan.
- Acquisition or disposals of SMSF assets that do not appear to be at commercial rates.
- No formal contracts established for loan, lease or other arrangement.
- Assets, such as rental properties, deriving little or no income, or income well below commercial rates.
- Investments which are inconsistent with the investment strategy or entered into without a sound rationale.

~~318.~~307. The auditor assesses all aspects of the transaction, including that the settlement terms, interest rates, rents, lease refurbishment term, warranties, security and repayment terms are commercial in nature in accordance with section 109 of the SISA. The SISA¹⁸⁶ requires that

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

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

¹⁸⁴ See Regulation 13.22A - 13.22D of the SISR

¹⁸⁵ See sSection 109 of the SISA.

¹⁸⁶ See sSection 109(1)(b) of the SISA.

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

Assets Held Separately

- 319.308. The trustees are required¹⁸⁷ to keep the money and the assets of the SMSF separate from their personal or business assets of the trustees and from the assets of standard employer-sponsors. The auditor examines the affairs of the SMSF to identify possible situations where the assets of the SMSF may have become intermingled with assets of the trustees or standard employer-sponsors. The auditor checks that the assets of the SMSF are registered in the SMSF's name or, where assets cannot be held directly by the SMSF (for example in some jurisdictions, a property title may not be able to be held in the name of the fund), there is other clear evidence that those assets are held beneficially on behalf of the SMSF, such as a declaration of trust or a declaration an acknowledgement of trust.
- 320.309. Where there has been a change in trustees, the auditor generally checks that the ownership documents for fund assets have been updated.
- 321.310. The auditor confirms that the SMSF maintains a separate bank account for all fund monies and examines payments and receipts to ascertain that dividends, interest and other income of the SMSF are not banked into personal or business accounts, particularly where a corporate trustee operates a number of bank accounts as well as conducting the affairs of the SMSF. The auditor may test that dividends declared for listed securities held are received and banked by the SMSF.

Loans and Financial Assistance to Members or their Relatives

- 322.311. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives¹⁸⁸ and the approved form auditor's report states that the auditor procedures included "a review of investments to ensure the fund is not providing financial assistance to members, unless allowed under the legislation". The auditor examines the bank account and obtains explanations for material withdrawals and deposits in order to ascertain whether any loan or financial assistance benefit has been provided to a trustee, member or relative of a member or trustee. In certain circumstances, access by members or their relatives to SMSF funds may be considered to be an early access to benefits without meeting a condition of release.¹⁸⁹
- 323.312. In cases where funds are accessed in error by the trustees for non-SMSF use, the breach may affect the audit opinion, unless the amount is immaterial, the event is infrequent and repayment is made in full. Interest at commercial rates may also be appropriate.
- 324.313. The auditor reviews the ownership of the SMSF's assets to ensure that a charge or other form of security has not been taken over any of the SMSF's assets to secure a member's or relative's borrowings, which would be a form of financial assistance. This may require performing a title search for the SMSF's real property to identify any encumbrances.

¹⁸⁷ Subsection 52(2)(d) of the SISA (which is replaced by See subsection 52B(2)(d) for periods commencing 1 July 2013) of the SISA, and Regulation 4.09A of the SISR.

¹⁸⁸ See s65 of the SISA. Also refer to SMSFR 2008/1 *Giving financial assistance using the resources of a SMSF to a member or relative of a member that is prohibited for the purposes of section 65(1)(b) of the SISA*.

¹⁸⁹ Determining whether benefits have been accessed prior to meeting a condition of release is a question of fact and any penalty is at the discretion of the ATO.

Borrowings

~~325.~~314. SMSFs are not permitted to borrow money,¹⁹⁰ with the exceptions¹⁹¹ of borrowings:

- (a) to pay a benefit, pension or superannuation contribution surcharge liability (no longer levied), for a maximum of 90 days for up to 10% of the value of the SMSF's assets;
- (b) to cover settlement on a security transaction for a maximum period of 7 days, for up to 10% of the value of the SMSF's assets provided that, at the time the relevant investment decision was made, it was likely that the borrowing would not be needed; or
- (c) that are part of a limited recourse borrowing arrangement.¹⁹²

~~326.~~315. Ordinarily, the auditor reviews the bank statements to ascertain whether any non-compliant borrowings were made during the period, whether by way of an overdraft or a loan account.

~~327.~~316. Margin lending, in general, involves a borrowing arrangement where a loan is taken out using the listed securities purchased as security for that loan. Margin loan facilities breach the SISA and SISR by virtue of the fact that the borrowing is not an approved exception to the borrowing prohibition and SMSFs are not permitted to give a charge over some or all of the fund assets as required by a margin lending arrangement. If the SMSF is involved in trading of securities or derivatives, the auditor examines related documentation for indications of the existence of margin lending arrangements, such as interest payments on broker's statements, margin call payments or significant listed securities purchases without corresponding payments.

317. The auditor reviews any investments in derivatives, including options, futures, or swaps, to ascertain that the investments are in accordance with the investment strategy, any current legislative requirement and that the investment is not putting the assets of the SMSF at risk. Derivatives, due to their inherent nature, may be high risk and involve borrowings that may have recourse to the SMSF. Where the auditor is unsure of the legality of the investment, the auditor may need to seek legal advice as to whether the investment meets the investment restrictions. Active trading of derivatives may be construed as running a business and, consequently, may be a breach of the sole purpose test.

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

~~329.~~319. Investments in limited recourse borrowing arrangements are an exception to the prohibition on borrowings. Limited recourse borrowing arrangements are complex financial arrangements whereby the SMSF buys an asset via a limited recourse agreement where there is some debt funding or borrowing to purchase the asset. The transaction is characterised by an asset held in trust for the SMSF, where the SMSF holds an interest in the income and the rights to acquire the asset. The SMSF may be required to make regular instalments or repayments. Recourse by the lender, against the fund trustee, in the case of failure to settle the loan, is required to be solely over, and limited to, the asset held in the trust arrangement. After commencing the borrowing, the SMSF is required to make at least one payment before purchasing the asset. Whilst there is no formal requirement for regular repayments / instalments, the lack of repayments may bring into question the commercial rationale of the underlying investment and whether the sole purpose test is being breached.

¹⁹⁰ See sSection 67(1) of the SISA. Also refer to SMSFR 2009/2 *The meaning of "borrow money" or "maintain an existing borrowing of money" for the purposes of section 67 of the SISA.*

¹⁹¹ See sSections 67 and 67(A) of the SISA.

¹⁹² Refer to See ATO Ruling SMSFR 2012/1 *Self-Managed Superannuation Funds: limited recourse borrowing arrangements – application of key concepts* (SMSFR 2012/1).

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

~~331.~~321. For limited recourse borrowing arrangements¹⁹³ entered into by superannuation funds on or after 7 July 2010 or previous section 67(4A) debt arrangements that have been refinanced after 7 July 2010:

- (a) the asset within the arrangement can only be replaced by a different asset¹⁹⁴ in very limited circumstances specified in the law;
- (b) superannuation fund trustees cannot borrow to improve an asset¹⁹⁵ (for example, real property);
- (c) the borrowing is permitted only over a single asset or a collection of identical assets that have the same market value;
- (d) the asset within the arrangement is not subject to a charge other than to the lender in respect of the borrowing by the superannuation fund trustee.¹⁹⁶

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

- Examination of the fund's governing rules to determine if the SMSF is permitted to borrow.
- Examination of the investment strategy, or discussions with the trustees if there is no written investment strategy, to determine if limited recourse borrowing arrangements and the percentage of funds devoted to them are allowed within that strategy.
- Identification of the nature of the asset purchased and whether the vendor is a related party so as to ensure that the transaction is permitted under the SISA, SISR and the fund's governing rules.
- Determination of whether the debt arrangement or loan agreement is a non-recourse agreement as required by the SISA,¹⁹⁷ whereby the other assets of the SMSF are not used as security for the loan.
- Determination of whether the finance is provided by a related party, such as a family trust, in order to identify any potential non arm's length dealings.
- Determination of whether the funds borrowed were used to purchase an asset held in the limited recourse borrowing arrangement.
- Determination of whether the funds borrowed has been used to improve an asset.
- Identification of whether the terms of the loan are commercial. Less than commercial interest rates may be a means of making additional contributions to the SMSF, whereas an excessively high interest rate may fail the sole purpose test, or potentially be a scheme to access benefits.

¹⁹³ See sSections 67A and 67B of the SISA.

¹⁹⁴ Table 2 in ATO ruling SMSFR 2012/1 provides illustrative guidance as to whether a change to a single acquirable asset results in a different asset.

¹⁹⁵ Table 1 in ATO ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.

¹⁹⁶ Refer to See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.

¹⁹⁷ Subsection ~~See subsection~~ 67A(1) of the SISA.

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

Charges Over Assets

~~333.~~323. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility¹⁹⁹ and, hence, charges and liens over assets are not permitted. Also, charges and liens over any member benefits are prohibited. ~~Accordingly, the auditor reviews the minutes, correspondence and records of the trustees to identify whether any charges or debt facilities have been applied for or established.~~ Additional audit procedures include review of any bank confirmations for charges, ~~dividend reinvestment options,~~ title searches on properties of the SMSF to identify any charges or liens, the Personal Properties Securities Register for parties registering interests against other SMSF assets and examination of the accounting records or bank statements to identify any interest payments made by the SMSF, which may indicate a loan facility.

~~334.~~324. Similarly, the auditor ordinarily reviews the ownership of the SMSF's assets to ensure that a charge, or other form of security, has not been taken over any of the SMSF's assets. This may extend to reviewing any product disclosure statement relating to assets acquired to determine whether the product has any recourse to the SMSF. Even if the marketing or summary material claims there is no recourse to the SMSF, the auditor still checks the actual provisions of the arrangement.

~~335.~~325. Where the SMSF has investments in related or unlisted unit trusts, the auditor is alert to any borrowings the unit trust may have and whether there is any recourse to the SMSF. Where a related unit trust has allowed a charge over its assets or has a borrowing, the investment in the unit trust becomes and remains an in-house asset of the fund. ~~Any borrowings by the unit trust must be in accordance with the SISA and SISR. Certain unit trusts established pre-July 1999 may be subject to transitional legislation that permits borrowings. The auditor assesses the legislative requirements that apply to the trust and whether the borrowing is permitted on an ongoing basis or needs to be repaid. Additional audit procedures may need to be conducted to assess this. Specialist legal advice may be sought if the auditor is unsure whether the investment exposes the SMSF to borrowings.~~

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

¹⁹⁹ See rRegulation 13.14 of the SISR. Also refer to see ATO IDs 2010/162, 2010/169, 2010/170, 2010/172, 2010/184, and 2010/185, 2014/39 and 2014/40.

~~336.~~326. Ordinarily, the auditor requests a financial report, the tax return and distribution statements, for investments in unit trusts, to identify income, net asset value and any debts owing by the unit trust. In certain cases, the unit trust deed may be required to assist the auditor in assessing compliance.

Asset Valuation

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

Benefit Restrictions

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

- (a) the type of benefit the member has accumulated in the SMSF;
- (b) the member's age and whether any preservation restrictions apply to the benefit; and
- (c) whether the rules of the SMSF permit the benefit to be paid at the time.²⁰¹

Minimum Benefits

~~339.~~329. The trustees are required²⁰² to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred. ~~For defined benefit funds, the auditor ensures that the minimum benefits have been calculated correctly by reference to the formula provided in the fund's governing rules, the SMSF's records and the actuarial valuation, if appropriate.~~

Payment of Benefits

~~340.~~330. Generally, benefit ~~payments~~ are triggered due to a condition of release being met. ~~and T~~he approved form auditor's report states that the auditor's procedures include testing "that no preserved benefits have been paid before a condition of release has been met". Conditions of release are specified in the SISR²⁰³ and may be further restricted by the SMSF's governing rules. Conditions of release include retirement, ~~reaching age 65~~, death, ~~permanent or~~ temporary incapacity, terminal medical condition, ~~permanent incapacity~~, attaining the prescribed preservation age for a transition to retirement benefit,²⁰⁴ severe financial hardship and, compassionate grounds ~~which are assessed by the Department of Human Services, approved by APRA,~~²⁰⁵ ~~attaining age 65 or a request to rollover. A condition of release triggers either a lump sum payment or a pension.~~

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

²⁰⁰ See ~~r~~Regulation 8.02B of the SISR.

²⁰¹ ~~More information is available on the ATO's website ato.gov.au (search under Paying benefits)ATO's NAT 74124 Paying benefits from a self-managed super fund.~~

²⁰² See ~~r~~Regulation 5.08 of the SISR.

²⁰³ Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.

²⁰⁴ Members need to reach their preservation age before commencing a transition to retirement benefit. This is age 55 for those born prior to 1 July 1960 and increasing up to age 60 for those born after 1 July 1964.

²⁰⁵ ~~Under part 6 of the SISA the Chief Executive Medicare has the general administration of SISR regulations about the release of superannuation on compassionate grounds. The Commissioner of Taxation delegated the authority as regulator with respect to approval of compassionate reasons to APRA.~~

²⁰⁶ Maximum payments exist for transition to retirement income streams.

²⁰⁷ See ~~s~~Subregulation 1.06(9A)(a) of the SISR.

²⁰⁸ See ~~s~~Schedule 7 of the SISR.

commutation²⁰⁹ of an account based pension (~~not including~~ a transition to retirement income stream²¹⁰) counts towards the minimum annual amount ~~unless the payment is rolled over~~. A payment made as a result of a full commutation cannot count towards the minimum annual amount as the account based pension ceases before payment is made.²¹¹ The auditor confirms that a series of payments have been made over the life of each pension account. Subsequent pension payments are reviewed to confirm that a series of payments has been made.

342.332. Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year²¹² and the income stream²¹³ from the assets ~~providing that support the pension~~ is will not be tax exempt ~~during the period for the year~~.²¹⁴ The ATO guidelines *Self-Managed superannuation funds – starting and stopping a superannuation income stream (pension)*²¹⁵ outlines exceptions whereby the Commissioner may exercise discretion in allowing a SMSF to treat income as exempt pension income even though the minimum pension standards have not been met. Furthermore the guidelines outline the circumstances under which the ATO will allow a trustee to self-assess their entitlement to this concession.

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

344.334. In relation to testing the compliance of both lump sum or pension-type benefits, the auditor considers whether:

- (a) the circumstances of the individual in triggering the payment of the benefit are consistent with a condition of release;
- (b) the member has satisfied the payment criteria; and
- (c) the benefit has been calculated correctly in accordance with the method provided in the governing rules.

345.335. Ordinarily, the auditor tests the validity of the payment by checking to source documents that the benefit payment is *bona fide*, such as sighting a signed letter to the trustees requesting the benefit be paid and that retirement is evidenced by a statutory declaration or similar document stating that the individual has retired and will not be seeking paid employment in the future.

346.336. Total and permanent disability generally requires at least two appropriately qualified medical practitioners to certify that the individual is unlikely to work in paid employment or meets such similar definition as may be contained in the governing rules of the SMSF. The SMSF may or may not have insurance for total and permanent disability.

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

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

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

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

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

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

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

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

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

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

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

Assignment of Members' Interests and Charges over Members' Benefits

~~350.~~340. The trustees are not permitted to recognise, or in any way encourage or sanction, an assignment of a superannuation interest, of a member or beneficiary,²¹⁶ or a charge over, or in relation to, a member's benefits.²¹⁷ Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

~~351. The auditor reviews the trustees' minutes, contracts and correspondence to identify any arrangements which may amount to an encumbrance over members' interests or benefits. Similarly, the auditor reviews the same documentation to ensure that the benefit or member's interest has not been assigned to another individual or corporation. The auditor may obtain representations from the trustees that no such arrangements have been entered into as far as they are aware.~~

Contribution Restrictions

~~352.~~341. A contribution is defined as anything of value that increases the capital of a superannuation fund provided by a person whose purpose is to benefit one or more particular members of the fund or all of the members in general.²¹⁸ Ordinarily, the auditor examines all contributions made to the SMSF to assess whether they have been made in accordance with the fund's governing rules, SISA and SISR and, that in accepting the contribution, the SMSF is not contravening the SISA and SISR. In making this assessment, the auditor identifies the type of contribution made, the age of the member and the source of the contribution.

~~353.~~342. The auditor tests that the SMSF has accepted contributions only in accordance with the SISR,²¹⁹ which are either:

- (a) mandated employer contributions received irrespective of the member's age, such as SG contributions, superannuation guarantee shortfall, award related and certain payments from superannuation holding accounts;
- (b) member contributions or employer contributions (except mandated contributions) when:
 - (i) the member is under 65 years old;
 - (ii) the member is not under 65 but is under 70 and has been gainfully employed at least on a part-time basis during the financial year in which the contribution is made;²²⁰ or

²¹⁶ See rRegulation 13.12 of the SISR.

²¹⁷ See rRegulation 13.13 of the SISR.

²¹⁸ See TR 2010/1 Income tax: Superannuation contributions.

²¹⁹ See rRegulation 7.04 of the SISR.

- (iii) the member is not under 70 but is under 75 and has been gainfully employed at least on a part-time basis during the financial year in which the contribution is made and the contribution is received no later than 28 days after the month end when the member turned 75 and, in the case of a member contribution, it is made by the member.
- (c) other contributions for a member who is under 65 years of age; or
- (d) contributions received at a later date in respect of a period in which the member met the age restrictions.

354.343. The auditor also tests that contributions are:

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

355.344. In verifying the appropriateness of contributions received the auditor considers factors including:

- The type and source of the contribution.
- The age of the member.
- Whether a tax file number has been provided.
- The amount contributed.
- The timing of when the contribution was made.

356.345. Ordinarily, the auditor checks to see that the classification of any taxable contributions is appropriate and allocated to the correct member account. If a single ~~inappropriate non-concessional~~ contribution ~~or contribution which is~~ in excess of the ~~non-concessional~~ contributions cap is accepted, the SMSF is not in breach of the SISA or SISR if the SMSF returns the ~~excess~~ amount within 30 days of becoming aware that the amount was received in a manner that was inconsistent with the regulations.²²¹ The contribution is not required to be returned unless all or part of the contribution itself will cause the member to have excess non-concessional contributions for the income year.²²² The fund reports excess concessional contributions that do not meet the requirements of regulation 7.04 of the SISR as non-concessional contributions. The ATO enquires of the member whether the excess is required to be returned to the contributor. The member ordinarily has the choice to return the contributions or leave them in the fund. Concessional contributions returned to the contributor are not included in the amount of the member's non-concessional contributions.

357.346. With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated ~~correctly where material~~ to the correct member.

²²⁰ The basic work test for accepting contributions is to work for remuneration for at least 40 hours in a continual 30 day period within the year the contribution was made.

²²¹ See rRegulation 7.04 of the SISR.

²²² ATO Interpretative Decision 2008/17, 2008/18, 2008/90, 2009/29, 2010/104.

In-specie Contributions

- 358:347. *In-specie* contributions are contributions to a SMSF where a physical asset (e.g. a commercial property) or an intangible asset (e.g. a share, or an option) are contributed to the SMSF on behalf a member without any cash being exchanged.
- 359:348. Where contributions are accepted *in-specie*, the auditor assesses whether:
- (a) the fund's governing rules permits *in-specie* contributions; and
 - (b) the SISA prohibitions on acquiring assets from related parties (including members) have been satisfied.
- 360:349. Once it is established that the *in-specie* contribution may be accepted, the auditor assesses whether the *in-specie* contribution is:
- (a) within the contributions cap;
 - (b) valued ~~fairly, generally~~ at market value ~~or independent valuation~~; and
 - (c) not in breach of any other SISA prohibition.

Use of Reserves

- 361:350. Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the trustees is appropriate and within the requirements of the SISA and SISR. In particular, the allocation from an investment reserve to members' accounts *should* take into consideration the return on the investments, any costs attributable to the members' accounts and the level of the reserves held by the fund.²²³ For contributions held in any reserves, the auditor checks to ensure the amounts have been allocated to members' accounts within 28 days ~~of receipt by the fund~~ after the end of the month in which the contributions were received.

Investment Returns

- 362:351. An auditor ordinarily checks to ensure that any fund investment returns or losses are accurately credited or debited to relevant members' benefits in a way that is fair and reasonable.²²⁴ The allocation *should* take into consideration all the members of the fund and the various kinds of benefits of each member of the fund.

Solvency

- 363:352. If the auditor, in the course of, or in connection with, performance of the audit of a SMSF, forms the opinion that the financial position of the SMSF may be, or may be about to become, unsatisfactory, the auditor is required to report to the ATO (in an ACR) and to the trustees in writing under section 130 of the SISA.
364. Under the SISR,²²⁵ the financial position of a SMSF is treated as unsatisfactory if, in the auditor's opinion:
- (a) ~~for a defined benefit fund: the value of vested benefits exceed the value of the assets; or~~
 - (b) ~~353.~~ for an accumulation fund, ~~either the aggregate members' benefits accounts exceed the value of the assets or the accrued members' benefits exceed the value of the assets.~~

²²³ See sSub-regulation 5.03(1) of the SISR.

²²⁴ See sSub-regulation 5.03(2) of the SISR.

²²⁵ See rRegulation 9.04 of the SISR.

Other Regulatory Information

- ~~365.~~354. In the course of conducting the audit, the auditor may obtain information regarding the SMSF, ~~or~~ a trustee or another auditor which the auditor considers may assist the ATO in performing its functions under the SISA or SISR. This information may relate to compliance with requirements of the SISA or SISR which are not specified in the approved form auditor's report or the ACR. Under section 130A of the SISA, the auditor ~~is required to~~may report any such information to the ATO in the ACR.
- ~~366.~~355. The auditor considers whether any regulatory information reported in the ACR under section 130A needs to be included in the auditor's report on compliance, as the approved form auditor's report allows for reporting on additional sections of the SISA and SISR, and whether the information affects the compliance assurance opinion.

Other Compliance Engagement Considerations

Service Organisations

- ~~366.~~356. If a service organisation is used by the SMSF, the auditor cannot merely rely on the type 2 report as evidence of the SMSF's compliance with the SISA and SISR (refer paragraph 25). The auditor ~~should~~ performs additional procedures necessary to ensure the SMSF's compliance with the SISA and SISR, for example, reviewing cash transaction accounts to ensure compliance with the borrowing requirements of SIS. To address the other compliance requirements, the auditor requests the service organisation to confirm that the compliance obligations have been met, for example:
- (a) Confirmation that the assets are held by the fund trustee, in trust for the fund;
 - (b) Confirmation that none of the investments were acquired from a related party, or if acquired from a related party, that the acquisition was done at market value;
 - (c) Confirmation that, to the knowledge of the service provider, none of the investments held is pledged as security.
- ~~367.~~ If insufficient evidence of compliance is obtained by assurance procedures at the SMSF and further evidence of compliance is located at the service organisation, the auditor may either visit the service organisation to conduct compliance testing or request the SMSF to engage another auditor to conduct the testing required. This may consist of an agreed upon procedures engagement, which may comprise completion of a compliance checklist with respect to the services provided.
- ~~368.~~357. It may be impossible or impractical to obtain sufficient appropriate audit evidence of compliance with respect to the services provided, in which case either the auditor qualifies their opinion on the basis of a limitation of scope or issues a disclaimer of opinion.

Subsequent Events

- ~~369.~~358. The auditor considers the effect of subsequent events on the auditor's compliance report occurring up to the date the report is signed. If a material compliance breach has occurred after year end and the breach indicates a systemic issue with potential to impact the reporting period, it may result in modifications to the compliance report.

Reporting Compliance Breaches

- ~~370.~~359. In determining whether to report potential or actual contraventions (breaches) identified during the compliance engagement, the auditor applies different criteria in relation to their reporting obligations to:
- (a) a trustee in the management letter;

~~(a)~~(b) a trustee under SISA sections 129 or 130²²⁶ ~~(management letter);~~

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

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

371.360. The auditor reports to a trustee in writing under SISA section 129 any reportable contraventions of the SISA or SISR, which it is likely may have occurred, may be occurring or may occur, regardless of the materiality of those contraventions. The auditor also reports to a trustee under section 130 if the financial position of the SMSF may be, or may be about to become, unsatisfactory.

372.361. The auditor reports events which may lead, or have led, to one or more contraventions of the SISA or SISR to the ATO in an ACR where they are contraventions of sections or regulations specified in the ACR and, either:

- (a) those contraventions meet the reporting criteria, which comprise seven mandatory tests specified in the ACR instructions;²²⁷ or
- (b) those contraventions do not meet the specified tests, but the auditor wishes to report them as a result of the exercise of professional judgement.

In addition, the auditor reports to the ATO in an ACR under section 130 if the financial position of the SMSF may be or may be about to become unsatisfactory.²²⁸

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

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

374. In determining whether a contravention identified is material to the SMSF, and therefore whether a modification to the auditor's report is warranted, the auditor considers the factors in paragraph 273.269 as well as factors such as:

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

363.

²²⁶ Where an auditor forms an opinion that it is likely that a contravention may have occurred, may be occurring or may occur, the reporting criteria and the list of reportable sections and regulations that an auditor applies to determine whether a report to the ATO is required, are listed in the ACR instructions (NAT 11299) www.ato.gov.au/Forms.

²²⁷ The ACR instructions (NAT 11299) and ACR (NAT 11239) are approved forms and can be obtained through the ATO's website at www.ato.gov.au/Forms. Additionally, eSAT software is available free of charge from the tax office to assist in completing the compliance assurance engagement and reporting any ACRs appropriately to the ATO. See www.ato.gov.au/eSAT for further details.

²²⁸ See "Solvency" at paras 363-364.

~~375.~~364. Even if a contravention is reported in an ACR, it does not necessarily result in a modification to the auditor's compliance report. The auditor, nevertheless, considers the contraventions which meet the reporting criteria specified in the ACR instructions, and uses professional judgement in determining the impact, if any, on the auditor's compliance report.

~~376.~~365. The circumstances which may result in a modification to the auditor's compliance report are where:

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

~~377.~~366. A qualified opinion is expressed as being "except for" the matter to which the qualification relates when that matter is not as material or pervasive as to require an adverse or disclaimer of opinion.

Draft

Appendix 1

(Ref: Para. ~~55-56~~)

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

The following example audit engagement letter is for use as a guide only, in conjunction with the considerations described in GS 009, and may need to be modified according to the individual requirements and circumstances of each engagement.

To [the Trustees/Directors of the Corporate Trustee] of [name of SMSF]

[The Objective and Scope of the Audit]

You have requested that we audit the [name of SMSF]'s (the Fund):

1. financial report, which comprises the [statement of financial position/statement of net assets] as at [date] and the [operating statement/statement of changes in net assets] for the [period] then ended and the notes to the financial statements; and
2. compliance during the same period with the requirements of the Superannuation Industry (Supervision) Act 1993 (SISA) and SIS Regulations (SISR) specified in the approved form auditor's report as issued by the ATO, which are sections 17A, 35A~~E~~, 35B, 35C(2), 52(2)(~~de~~), ~~52(2)(e)~~, 62, 65, 66, 67, 67A, 67B, ~~69-71E~~, ~~73-75~~, ~~802~~-85, 103, ~~104~~, 104A, ~~105~~, 109 and 126K of the SISA and regulations 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8.02B, 13.12, 13.13, 13.14 and 13.18AA of the SISR.²²⁹

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

[The Responsibilities of the Auditor]

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

The annual audit of the financial reports and records of the Fund must be carried out during and after the end of each year of income. In accordance with section 35C of the SISA, we are required to provide to the trustees of the Fund an auditor's report in the approved form within the prescribed time as set out in the SISR, 28 days after the trustees have provided all documents relevant to the preparation of the auditor's report.

Financial Audit

A financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. A financial audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by the

²²⁹ These sections and regulations need to be amended if there are any changes to the sections and regulations in the approved form auditor's report.

trustees, as well as evaluating the overall presentation of the financial report. Due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In making our risk assessments, we consider internal controls relevant to the Fund's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls. However, we expect to provide you with a separate letter concerning any significant deficiencies in the Fund's system of accounting and internal controls that come to our attention during the audit of the financial report. This will be in the form of a trustee letter.

Compliance Engagement

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

Our compliance engagement with respect to investments includes determining whether the investments are made for the sole purpose of funding members' retirement, death or disability benefits and whether you have an investment strategy for the Fund, which has been reviewed regularly and gives due consideration to risk, return, liquidity, diversification and the insurance needs of members' managers. Our procedures will include testing whether the investments are made for the allowable purposes in accordance with the investment strategy, but not for the purpose of assessing the appropriateness of those investments to the members.

[The Responsibilities of the Trustees]

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

Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report and for determining that the accounting policies used are consistent with the financial reporting requirements of the SMSF's governing rules, comply with the requirements of SISA and SISR and are appropriate to meet the needs of the members.²³⁰ This responsibility includes:

- Establishing and maintaining controls relevant to the preparation of a financial report that is free from misstatement, whether due to fraud or error. The system of accounting and internal control should be adequate in ensuring that all transactions are recorded and that the recorded transactions are valid, accurate, authorised, properly classified and promptly recorded, so as to facilitate the preparation of reliable financial information. This responsibility to maintain adequate internal controls also extends to the Fund's compliance with SIS including any Circulars and Guidelines issued by a relevant regulator to the extent applicable. The internal controls should be sufficient to prevent and/or detect material non-compliance with such legislative requirements.
- Selecting and applying appropriate accounting policies.
- Making accounting estimates that are reasonable in the circumstances.
- Making available to us all the books of the Fund, including any registers and general documents, minutes and other relevant papers of all Trustee meetings and giving us any information, explanations and assistance we require for the purposes of our audit. Section 35C(2) of SIS requires that Trustees *must* give to the auditor any document that the auditor requests in writing within 14 days of the request.

²³⁰ If the SMSF is a reporting entity this sentence requires amendment to read: "Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)."

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

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

[Independence]

We confirm that, to the best of our knowledge and belief, the engagement team meets the current independence requirements of the SISA and SISR including APES 110 *Code of Ethics for Professional Accountants* in relation to the audit of the Fund. In conducting our financial audit and compliance engagement, should we become aware that we have contravened the independence requirements, we *shall* notify you on a timely basis.

[Report on Matters Identified]

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

You should not assume that any matters reported to you, or that a report that there are no matters to be communicated, indicates that there are no additional matters, or matters that you should be aware of in meeting your responsibilities. The completed audit report may be provided to you as a signed hard copy or a signed electronic version.²³¹

[Compliance Program]

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

[Limitation of liability]²³²

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

[Fees]

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

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

²³¹ The auditor should retain an original hard copy in the working papers.

²³² Applicable to participants in a limitation of liability scheme. Accounting Professional and Ethical Standard APES 305 *Terms of Engagement*, issued by the Accounting Professional & Ethical Standards Board in December 2007, which is applicable to members of the professional accounting bodies in Australia in public practice, requires participants in a limitation of liability scheme under Professional Services Legislation to advise the client that the member's liability may be limited under the scheme.

[Other]

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our financial audit and compliance engagement of the [name of SMSF].

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

Yours faithfully,

.....

Name and Title

Date

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

.....

Name and Title

Date

Appendix 2

(Ref: Para. ~~116~~118)

EXAMPLE OF A SELF-MANAGED SUPERANNUATION FUND TRUSTEE REPRESENTATION LETTER

This illustrative letter is provided as an example only and may need to be modified according to the individual requirements and circumstances of each engagement. Representations by the trustees will vary between SMSFs and from one period to the next. In the event that the trustees do not provide requested written representations the auditor should make reference to ASA 580 in determining the effect on the audit.

[SMSF letterhead]

Date

[Addressee - Auditor]

Dear [Sir/Madam],

Trustee Representation Letter

This representation letter is provided in connection with your audit of the financial report of the [SMSF Name] (the Fund) and the Fund's compliance with the Superannuation Industry (Supervision) Act 1993 (SISA) and SIS Regulations (SISR), for the [period] ended [date], for the purpose of you expressing an opinion as to whether the financial report is, in all material respects, presented fairly in accordance with the accounting policies adopted by the Fund and the Fund complied, in all material respects, with the relevant requirements of SISA and SISR.

The trustees have determined that the Fund is not a reporting entity for the [period] ended [date] and that the requirement to apply Australian Accounting Standards and other mandatory reporting requirements do not apply to the Fund.²³³ Accordingly, the financial report prepared is a special purpose financial report which is for distribution to members of the Fund and to satisfy the requirements of the SISA and SISR. We acknowledge our responsibility for ensuring that the financial report is in accordance with the accounting policies as selected by ourselves and requirements of SISA and SISR, and confirm that the financial report is free of material misstatements, including omissions.

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

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

1. Sole purpose test

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

2. Trustees are not disqualified

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

²³³ If the SMSF is a reporting entity then it will be required to prepare a general purpose financial report in accordance with the Australian Accounting Standards and this paragraph will need to be adapted accordingly.

3. Fund's governing rules, trustees' responsibilities and Fund conduct

The Fund meets the definition of a self-managed superannuation Fund under SISA, including that no member is an employee of another member, unless they are relatives and no trustee [or director of the corporate trustee] receives any remuneration for any duties or services performed by the trustee [or director] in relation to the Fund.

The Fund has been conducted in accordance with its governing rules at all times during the year and there were no amendments to the governing rules during the year, except as notified to you.

The trustees have complied with all aspects of the trustee requirements of the SISA and SISR.

The trustees are not subject to any contract or obligation which would prevent or hinder the trustees in properly executing their functions and powers.

The Fund has been conducted in accordance with SISA, SISR and the governing rules of the Fund.

The Fund has complied with the requirements of the SISA and SISR specified in the approved form auditor's report as issued by the ATO, which are sections 17A, 35A, 35B, 35C(2), 52(2)(e), 52(2)(e), 62, 65, 66, 67, 67A, 67B, 69-71E, 73-75, 802-85, 103, 104, 104A, 105, 109 and 126K of the SISA and regulations 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8.02B, 13.12, 13.13, 13.14 and 13.18AA of the SISR.

All contributions accepted and benefits paid have been in accordance with the governing rules of the Fund and relevant provisions of the SISA and SISR.

There have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial report [or we have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report and the Auditor's/actuary contravention report].

4. Investment strategy

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

5. Accounting policies

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

6. Fund books and records

All transactions have been recorded in the accounting records and are reflected in the financial report. We have made available to you all financial records and related data, other information, explanations and assistance necessary for the conduct of the audit; and minutes of all meetings of the trustees.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud. We have established and maintained an adequate internal control structure to facilitate the preparation of reliable financial reports, and adequate financial records have been maintained. There are no material transactions that have not been properly recorded in the accounting records underlying the financial report.

We have disclosed to you the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud. We have disclosed to you all information in

relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves the trustees or others.

In instances where the Fund uses a custodian, we confirm we have not been advised of any fraud, non-compliance with laws and regulations or uncorrected misstatements that would affect the financial report of the fund.

Information retention obligations have been complied with, including:

- All accounting records and financial reports ~~have been~~ are being kept for 5 years,
- minutes and records of trustees' [or directors of the corporate trustee] meetings [or for sole trustee: decisions] ~~have been~~ are being kept for 10 years;
- records of trustees' [or directors of the corporate trustee] changes and trustees' consents are being kept for at least 10 years;
- copies of all member or beneficiary reports are being kept for 10 years; and
- ~~and~~ trustee declarations in the approved form have been signed and are being kept for each trustee appointed after 30 June 2007.

7. Asset form and valuation

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

Investments are carried in the books at market value. Such amounts are considered reasonable in light of present circumstances.

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

There are no commitments, fixed or contingent, for the purchase or sale of long term investments other than those disclosed in the financial report.

8. Safeguarding Assets

We have considered the importance of safeguarding the assets of the fund, and we confirm we have the following procedures in place to achieve this:

- Authorised signatories on bank and investment accounts are regularly reviewed and considered appropriate; and
- Tangible assets are, where appropriate, adequately insured and appropriately stored.

~~8.~~9. Significant assumptions

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

~~9.~~10. Uncorrected misstatements

We believe the effects of those uncorrected financial report misstatements aggregated by the auditor during the audit are immaterial, both individually and in aggregate, to the financial report taken as a whole. A summary of such items is attached.

~~10.~~11. Ownership and pledging of assets

The Fund has satisfactory title to all assets appearing in the statement of [financial position/net assets]. All investments are registered in the name of the Fund, where possible, and are in the custody of the respective manager/trustee.

There are no liens or encumbrances on any assets or benefits and no assets, benefits or interests in the Fund have been pledged or assigned to secure liabilities of others.

All assets of the Fund are held separately from the assets of the members, employers and the trustees. All assets are acquired, maintained and disposed of on an arm's length basis and appropriate action is taken to protect the assets of the Fund.

~~11.~~12. Related parties

We have disclosed to you the identity of the Fund's related parties and all related party transactions and relationships. Related party transactions and related amounts receivable have been properly recorded or disclosed in the financial report. Acquisitions from, loans to, leasing of assets to and investments in related parties ~~have~~has not exceeded the in-house asset restrictions in the SISA at the time of the investment, acquisition or at year end.

The Fund has not made any loans or provided financial assistance to members of the Fund or their relatives.

~~12.~~13. Borrowings

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

~~13.~~14. Subsequent events

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

~~14.~~15. Outstanding legal action

We confirm you have been advised of all significant legal matters, and that all known actual or possible litigation and claims have been adequately accounted for, and been appropriately disclosed in the financial report.

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

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

16. Going Concern

We confirm we have no knowledge of any events or conditions that would cast significant doubt on the fund's ability to continue as a going concern.

~~15.~~17. Additional matters

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

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

We understand that your examination was made in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements and was, therefore, designed primarily for the purpose of expressing an opinion on the financial report of the Fund taken as a whole, and on the compliance of the Fund with specified requirements of SISA and SISR, and that your tests of the financial and compliance records and other auditing procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

(signed)

.....

[Director/Trustee]

[Date]

.....

[Director/Trustee]

[Date]

Draft

Appendix 3

(Ref: Para.292)

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

The approved form auditor's report in this Appendix has been extracted from the ATO's *Instructions and form for approved auditors of SMSFs, Self-managed superannuation fund independent auditor's report* (NAT11466.06.2013)²³⁴ and should be read in conjunction with those instructions. Since this approved form is updated from time to time, the applicable version should be checked on the ATO's website. This report applies for reporting periods commencing on or after 1 July 2012.

SELF-MANAGED SUPERANNUATION FUND-INDEPENDENT AUDITOR'S REPORT

Approved SMSF auditor details

Name

Postal address

Business name

Business postal address

SMSF auditor number (SAN)

Professional organisation

Professional membership or registration number

Self-managed superannuation fund details

Self-managed superannuation fund (SMSF) name

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

Address

Year of income being audited

To the trustees

To the trustees of [SMSF name]

Part A: Financial report

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

SMSF trustee's responsibility for the financial report

Each SMSF trustee is responsible for the preparation and fair presentation of the financial report in accordance with the financial reporting requirements of the SMSF's governing rules, the

²³⁴ The ATO's Instructions and form for approved auditors of SMSFs, *Self-managed superannuation fund independent auditor's report* (NAT11466) is available at: www.ato.gov.au/Superfunds.

~~Superannuation Industry (Supervision) Act 1993 (SISA) and the Superannuation Industry (Supervision) Regulations 1994 (SISR), and for such internal control as each trustee determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.~~

Approved SMSF auditor's responsibility

~~My responsibility is to express an opinion on the financial report based on the audit. I have conducted an independent audit of the financial report in order to express an opinion on it to the trustee. I have complied with the auditor independence requirements prescribed by the SISR and the competency standards set by ASIC.~~

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

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

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

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

[Basis for Qualified / Disclaimer of / Adverse approved SMSF auditor's opinion]

~~This section should be modified if the financial report is not a true and fair presentation of the financial position of the fund, or if in the opinion of the approved SMSF auditor the financial position of the fund may be, or may be about to become, unsatisfactory or there are other conditions that warrant a qualification.]~~

[Qualified / Disclaimer of / Adverse] approved SMSF auditor's opinion

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

~~[Select one option]~~

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

~~OR~~

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

~~OR~~

~~c) — presents fairly, in all material respects, in accordance with the accounting policies described in the notes to the financial statements (and the SMSF's governing rules), the operations of the fund for the year ended 30 June [year].~~

~~[The following “Basis of Accounting” section is required if the audit report is for a reporting period commencing on and from 1 January 2010, otherwise delete it.]~~

Basis of Accounting

~~Without modifying my opinion, I draw attention to Note [X] of the financial report, which describes the basis of accounting. The financial report has been prepared to assist [SMSF Name] to meet the requirements of the SMSF’s governing rules, the *Superannuation Industry (Supervision) Act 1993* (SISA) and the *Superannuation Industry (Supervision) Regulations 1994* (SISR). As a result, the financial report may not be suitable for another purpose.~~

Part B: Compliance Report

SMSF trustee’s responsibility for compliance

~~Each SMSF trustee is responsible for complying with the requirements of the SISA and the SISR.~~

Approved SMSF auditor’s responsibility

~~My responsibility is to express opinion conclusion on the trustee’s compliance, based on the compliance engagement.~~

~~I have complied with the auditor independence requirements prescribed by the SISR and the competency standards set by ASIC. My audit has been conducted in accordance with applicable Standards on Assurance Engagements, to provide reasonable assurance that the trustee of the fund has complied, in all material respects, with the relevant requirements of the following provisions (to the extent applicable) of the SISA and the SISR.~~

~~Sections: 17A, 35A, 35B, 35C(2), 52(2)(d), 52(2)(e), 62, 65, 66, 67, 67A, 67B, 69-71E, 73-75, 80-85, 103, 104A, 109, 126K~~

~~Regulations: 1.06(9A), 4.09, 4.09A²³⁵, 5.03, 5.08, 6.17, 7.04, 8.02B²³⁶, 13.12, 13.13, 13.14 13.18AA.²³⁷~~

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

~~My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SISA and the SISR for the year ended 30 June [year].~~

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

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

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

[Basis for Qualified / Disclaimer of / Adverse approved SMSF auditor’s conclusion]

²³⁵—Reg 4.09A commenced 7/8/2012.

²³⁶—Reg 8.02B commenced 7/8/2012.

²³⁷—An explanation of each of these sections and regulations is attached as an appendix to assist trustees. Please ensure that it is attached to the fund’s audit report.

~~{This section should be modified if, in the opinion of the auditor, a contravention of one of the provisions listed is material.}~~

~~{Qualified / Disclaimer of / Adverse} approved SMSF auditor's conclusion~~

~~In my opinion, [except for the matter/s referred to above] each trustee of [SMSF name] has complied, in all material respects, with the requirements of the SISA or the SISR specified above, for the year ended 30 June [year].~~

~~{Signature}~~

~~{Name of approved SMSF auditor} _____~~

~~{Date} _____~~

Draft

Appendix 43

(Ref: Para. 64-65)

SELF-MANAGED SUPERANNUATION FUND GOVERNING RULES AUDIT PLANNING CHECKLIST

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

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

Ref	Questions to be addressed in examining the trust deed
A	ESTABLISHMENT AND EXECUTION
A.1	Is the date of establishment of the SMSF recorded?
A.2	Has the trust deed been: • Properly executed? • Signed by all the members who are individual trustees? • Witnessed? • Dated? • Stamped (if required)?
A.3	Do the rules incorporate the SISA, SISR and applicable taxation rules?
A.4	Does the deed outline the core and ancillary purposes of the SMSF?
A.5	Does the deed require an irrevocable election to be made to be a regulated superannuation fund or a fund subject to the SISA and SISR?
A.6	Does the deed have a clause which deems the appropriate legislation into or out of the deed to allow the SMSF to remain complying?
B	AMENDMENTS TO THE DEED
B.1	Does the deed allow amendments?
B.2	Has the trust deed been amended since the last audit? If so: • Has the deed amendment been properly executed? • Is confirmation of the deed's compliance with SISA and SISR required from the solicitor or other party involved in the amendment? • Is the amendment signed off by the current trustees? • Could the amendments impact the audit?
C	TRUSTEE AND MEMBERSHIP
C.1	Does the trust deed specify who may be a trustee? Either: • Two or more individual trustees; or • A trustee company.
C.2	Does the deed specifically identify the trustee as either an 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 • A non-working spouse? • A retired person? • A child?

Ref	Questions to be addressed in examining the trust deed
C.5	Does the deed limit the maximum number of members to 4 members?
C.6	Is membership open to anyone else?
C.7	Do the members of the SMSF meet the definitions? - No member of the SMSF is an employee of another member, unless related. - No trustee receives remuneration for their services to the SMSF in their capacity as trustee.
C.8	Does the trust deed contain the trustee covenants in s.52B of the SISA?
D	AUDIT AND FINANCIAL REPORTS
D.1	Does the trust deed require the appointment of an approved SMSF auditor?
D.2	Does the trust deed require the trustees to prepare a financial report annually and for it to be audited?
D.3	Does the trust deed require the trustees to keep the minutes and records of trustee decisions for at least 10 years and accounting records and signed financial reports for at least 5 years?
E	CONTRIBUTIONS
E.1	Does the deed allow: - Concessional contributions, including: - Employer contributions, including contributions made pursuant to a salary sacrifice agreement? - Member contributions for which a tax deduction is claimed? - Non-concessional contributions, including: - Member contributions for which no tax deduction is claimed? - Eligible spouse contributions? - Contributions in respect of minors? - Rollovers and transfers in? - Government co-contributions? - Contribution splitting to a spouse? - Contributions by members who are under 65 and not working? - Contributions by members who are working part-time and are over 65 and under 75? - Mandated contributions to be accepted at any age? - Contribution splitting arrangements pursuant to family law matters?
E.2	Does the deed allow for <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?
F	BENEFIT PAYMENTS
F.1	Does the SMSF require compulsory cashing of the members balance at a specific age?
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
G	PENSIONS
G.1	Does the deed expressly allow for payment of pensions by the SMSF, including*: - Account based pensions? - Transition to retirement income stream? - Allocated pensions? - Term allocated or market linked or growth pensions? - Complying lifetime or fixed term pensions - Non-complying lifetime or fixed term pensions? * This list includes a number of pensions which may no longer be permitted but if already established may continue being paid.
G.2	Does the deed allow for commutation of a pension?
G.3	Does the deed allow for the segregation of assets to meet pension requirements?

Ref	Questions to be addressed in examining the trust deed
G.4	Does the deed make reference to nominated beneficiaries?
H	RESERVES (If applicable)
H.1	Does the deed provide rules in relation to the establishment, maintenance and operation of SMSF Reserves?
H.2	Does the deed require different or parallel investment strategies for each reserve account?
I.	INVESTMENTS
I.1	Does the deed provide powers to the trustees to invest the assets of the SMSF?
I.2	Does the deed specify specific assets/asset classes that the SMSF may invest in?
I.3	Does the deed prevent investments in, or loans to, related parties?
I.4	Does the deed require an investment strategy to be formulated, regularly reviewed, and given effect?
I.5	Does the deed require the investment strategy to consider if insurance is relevant to the members of the fund?
J	BORROWINGS
J.1	Does the deed prohibit borrowings?
J.2	Does the deed permit borrowing in specific circumstances, including: • Temporary borrowings which are required for the payment of member benefits, short term settlement of securities or superannuation contributions surcharges (no longer levied)? • Borrowings for limited recourse borrowing arrangements?
K	WINDING-UP
K.1	Does the deed provide for the winding-up of the SMSF?

Appendix 54

(Ref: Para.69-70)

ILLUSTRATIVE FINANCIAL AUDIT PROCEDURES FOR A SELF-MANAGED SUPERANNUATION FUND

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

The procedures detailed are designed to address the financial audit of a SMSF, however, in some instances, where compliance matters are integral to the financial audit, these may also be included. For procedures in conducting a compliance engagement, a compliance checklist may be used.

Standardised checklists are available from a number of professional organisations ~~and the ATO has standard questions, which are contained in Guide for SMSF auditors – Approved auditors of self-managed super funds – role and responsibilities.~~²³⁸ Auditors should verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions²³⁹.

Ref	Audit Procedure
A	ENGAGEMENT ACCEPTANCE
A.1	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit, including: • Clearance from previous auditor on new engagements. • The firm has the appropriate resources and expertise to complete the engagement in the required time. • Confirmation of independence of the engagement partner and each audit team member.
A.2	Confirm that an engagement letter, that it is relevant to the scope of this audit, has been issued and will be signed by the trustee prior to the completion of the audit.
A.3	<u>A client acceptance or retention assessment has been undertaken.</u>
B	AUDIT PLANNING
B.1	Obtain a copy of the following documents before commencing the audit: • Fund's governing rules and amendments. • Signed audited financial reports for the prior year, <u>including the signed prior year's auditor's report.</u> • Minutes of trustee meetings.
B.2	Prepare an audit strategy and audit plan for this engagement addressing, as a minimum, the following matters: • Client profile, audit and reporting arrangements. • Audit approach - Nature: ○ Controls testing, including use of auditor's report available for key service organisations. ○ Substantive testing – inspection, observation, enquiry, confirmation, recalculation, re-performance and analytical review. - Timing. - Extent – fully substantive, sampling, analytical review or representations. - Resources, including extent of direction and supervision. Consider interviewing the trustees and/or their advisors, prior to and during the development of the audit plan.

²³⁸ The ATO's compliance checklist is contained within NAT 11375 and is available on the ATO's website at www.ato.gov.au/Superfunds

²³⁹ Auditor guidance and information is available on the ATO website at [https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors-including-the-ATO's-electronic-superannuation-audit-tool-\(eSAT\),-for-use-in-conducting-the-compliance-engagement](https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors-including-the-ATO's-electronic-superannuation-audit-tool-(eSAT),-for-use-in-conducting-the-compliance-engagement).

Ref	Audit Procedure
B.3	Complete a risk assessment and determine preliminary materiality levels, covering: • Risk assessment - Current period events. - Fraud risks. - Control environment. - Computer/IT environment. • Materiality
B.4	<u>Regulatory matters</u> • Before commencing the audit, confirm that the SMSF is an ATO regulated self-managed superannuation fund on Super Look Up (www.superlookup.gov.au).
C	FINANCIAL REPORT AND DISCLOSURE
C.1	<u>Clerical accuracy and note references</u> Check that: • The financial report includes an operating statement and statement of financial position or their equivalent and notes to the financial statements. • The table of contents or index agrees to the financial report, including the page numbers and content. • The footnotes refer to the notes to the financial statements and do not mention compilation reports or “unaudited” information. • The audit report is situated appropriately in the financial report so as not to suggest that members’ statements or other information have been audited. • Prior period comparatives agree to those from the prior year signed financial report. • Additions in the financial report are correct. • The notes to the financial statements cross-reference correctly to and from the operating statement and statement of financial position.
C.2	<u>Opening Balances</u> - new engagements • Review the most recent audited financial report, and the predecessor auditor’s report for any information relevant to opening balances. • Determine whether the opening balances reflect the application of the described accounting policies. • In order to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that may materially affect the current period’s financial report: - Consider reviewing the previous auditors’ audit work papers to obtain evidence regarding opening balances. - Evaluate whether audit procedures in the current period provide evidence in relation to opening balances. - Consider performing specific audit procedures to obtain evidence regarding opening balances. • Consider the impact of the prior periods modification (if applicable) to the opinion on the current period’s financial report. • Consider the sufficiency and appropriateness of audit evidence obtained on opening balances in relation to the current periods financial report. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor should consider the impact on the current period’s auditor’s report.
C.3	<u>Accounting policies</u> • If the SMSF is not a reporting entity, check that the accounting policy notes reflect this, obtain an understanding of the relevant accounting policies the trustee has used to prepare the financial report and check that the accounting policy notes adequately explain the policies adopted. • Determine whether the accounting policies in relation to assets, contributions, member entitlements and reserves meet the requirements of the SISA and SISR. • ~~If the SMSF is a reporting entity, check that the financial report complies with AAS 25 and other Australian Accounting Standards.~~ • Determine if there are any changes in the accounting policies applied in prior periods, and if so, check that these have been appropriately disclosed in the accounting policy notes.
D	UNDERLYING ACCOUNTING RECORDS
D.1	Obtain a copy of the SMSF’s ~~trial balance and~~ general ledger and agree the ~~trial balance~~ <u>general ledger</u> to the financial report and note any discrepancies.
D.2	Review the general ledger and identify material journal entries and other adjustments and review these to ensure that they are reasonable and consistent with the financial report.

Ref	Audit Procedure
E	CASH
E.1	Confirm the fund's bank accounts are in the name of the trustee on behalf of the fund by reviewing bank statements for each bank account.
E.2	Review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
E.3	Test large and unusual payments and receipts to ensure these are <i>bona fide</i> and correctly recorded and authorised.
E.4	Review bank reconciliation at year end: - Following up and investigating investigate large, unusual or recurring reconciling items. - Follow up uncleared deposits and unpresented cheques ensuring correct cut off. - Trace unpresented cheques to bank statement subsequent to year end.
E.5	Where banking accounts are significant to the audit you should gain sufficient appropriate audit evidence, that may include: - Confirming the bank balance by way of a bank confirmation. - Obtaining login details for on-line banking facilities in order to confirm balances at year-end. - Sighting original bank statements and subsequent redemptions for term deposits. - Seeking explanations for any material differences. - Checking for any debit balances, undisclosed liabilities and security for borrowings.
E.6	~~Where assets are grouped as "investments" and "other assets", ensure that cash investments are correctly classified as investments.~~
E.76	Where the fund had undeposited cheques recorded as "cash on hand" at period end, confirm these amounts were banked after period end. Obtain documentary evidence or confirmation from the trustee that the cash was received by the SMSF prior to and was deposited within a few days of period end.
F	INVESTMENTS
F.1	<u>General</u> An auditor should use professional judgement to determine what evidence is appropriate and the size of the sample to be verified for each investment.
F.2	<u>Foreign Currency Transactions</u> Check to ensure that all investments are recorded in Australian dollars and that if foreign currency transactions occur they are converted at the appropriate currency rates and accounted for correctly.
F.3	<u>Investor Directed Portfolio Services (WRAP accounts)</u> ~~Obtain a copy of the IDPS agreement and verify that the agreement is current and refers to the correct trustee and SMSF.~~ - Obtain the relevant auditor's report issued under ASIC Class Orders CO 13/763 or CO 13/762. - Confirm that the investments are held by the custodian (IDPS) and are identified as belonging to the SMSF. - Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B). - Check that there is no double counting of assets such as the SMSF bank account <u>or distributions receivable</u>.
F.4	<u>Fixed Interest Securities (including term deposits)</u> - Complete the following for each fixed interest security including debentures and bonds held by the SMSF at the end of the period: - Sight original certificates or obtain a bank confirmation to confirm correct ownership, date of issue of the certificates and date of maturity of the investment. - Agree the value of the fixed interest securities at period end. - For bonds, either confirm the net market value at period end with the originator of the security or with published market prices. - For unlisted non-transferable debentures, agree the net market value with the face value. - Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that the investment is an asset of the Fund. - Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes, and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued

Ref	Audit Procedure
	at market value (SISR regulation 8.02B).
F.5	<u>Property</u> • Complete property searches for all real estate investments owned by the SMSF. • Check that each property is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. This may involve viewing ~~a declaration of trust, Register General's Caveat or similar document~~ <u>the contract of sale when the property was first acquired, a declaration of trust or an acknowledgement of trust from the registered owner.</u> • Check that there are no registered encumbrances unless they are in relation to limited recourse borrowing arrangements permitted by Sections 67A and 67B of the SISA. If there are limited recourse borrowing arrangements – refer to F10 of these Illustrative Procedures. • Review the accounting policies to determine how the trustee has valued each property. Fund assets including property investments are required by Regulation 8.02B of the SISR to be carried at market value determined in line with ATO <i>Valuation guidelines for self-managed superannuation funds</i>. • Review the method used to value the property, including if the trustees have relied on an independent market appraisal or valuation, obtain a copy of this and confirm that: - The value is correctly reflected in the financial report. - The valuation/appraisal refers to the correct property. - The valuation was based on reasonable assumptions and is current. - The valuation does not take into account redemption costs, other than any GST payable on sale which should be removed from the value. - If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal. - That the method used to value the property is consistent with that disclosed in the accounting policy notes and is in line with ATO requirements and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B). - Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith, using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines. • Where the property includes “buildings and other fixtures” verify existence of adequate insurance and, where these are being depreciated, ensure that the depreciation adjustments are correctly and appropriately reflected as part of the market value of the investment.
F.6	<u>Listed Securities</u> Review the number of listed securities including shares, units, options, warrants and futures held by the SMSF at the end of the period. If the SMSF has units in unit trusts, obtain a listing of these and identify any unit trusts that are listed on the Australian Stock Exchange, those that are widely held trusts and those that are closely held trusts. • Check that each listed security is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties as required by ~~section 52(2)(d) of the SISA and~~ regulation 4.09(A)(2) of the SISR. • Agree the number of securities held at period end to the share registry or other appropriate sources. • Confirm the closing market price of the securities at the period end against an independent source. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). • If the SMSF invested or redeemed listed securities during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.

Ref	Audit Procedure
F.7	<u>Widely Held Unlisted Unit Trusts and Managed Funds</u> These are arm's length, professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices. • Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: - The number of securities held at period end. - That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF, and is held separate from the assets of the trustee, employers and other related parties as required by ~~section 152(2)(d) of the SISA and~~ regulation 4.09(A)(2) of the SISR. - The method used to determine the market value of the units at the period end is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported. • If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.
F.8	<u>Unlisted Closely Held Unit Trusts</u> These can be related trusts that may require additional audit procedures to confirm ownership, value and compliance with the SISR and SISA. • Sight the original unit certificates, a confirmation from the unit trust or similar documentation and: - Agree the number of units held at period end, and that - each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties • Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value and test the value by: - Obtaining documentary evidence to support the valuation. - Make enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units and any other factors that could impact the value of the investment. - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Where the trustee has undertaken the valuation, assess whether that the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines. If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.
F.9	<u>Pooled Superannuation Trusts and Life Insurance Policies</u> • Sight original statements issued by the product provider, or obtain a confirmation directly from the product provider at period end. • Confirm that the investment is in the correct name. • Confirm the number of units and value of the investment at period end. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at marked value (SISR regulation 8.02B).

Ref	Audit Procedure
F.10	<u>Assets subject to Limited Recourse Borrowing/ Arrangements</u> • If the asset is subject to a limited recourse borrowing arrangement, determine how the investment has been valued (refer above) and complete the following audit procedures: - Confirm the borrowing has either been used to acquire a single asset or, if the borrowing has been used to acquire a collection of assets, confirm each asset in the collection has an identical market value and that each asset in the collection is identical. - Confirm that the asset is held in trust for the SMSF - Confirm the borrowing has only been used to maintain and repair the asset (not improve the asset) or applied to refinance the borrowing. - If the asset was replaced, confirm the following: ○ A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or ○ A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or ○ Is as a result of a corporate action - Confirm that the SMSF has an option to acquire the legal ownership of the asset on payment of the final instalment. - Confirm that the lenders rights are limited in recourse against the fund trustee, to that asset. - Review an original statement or confirmation letter from the lender and confirm the amount of the debt, amount owing at balance date, interest charged during year, amount of borrowing costs incurred in the period and the value of any prepaid expense at the end of the period and that these have been correctly reflected in the financial report. • Consider if any additional disclosures are required so that the users of the financial report understand the limited recourse borrowing arrangement. Review the clerical and factual accuracy of any additional disclosure to ensure it appropriately reflects the position of the arrangement.
F.11	<u>Collectables and Personal Use Assets</u> • If the asset is a type that does not have any form of title, obtain evidence to confirm existence and ownership including: - Minutes or resolution relating to the acquisition of the asset. - Invoice and evidence of payment from the SMSF for the purchase of the asset. - Sighting asset. - Insurance policy or premium payment for insurance of the asset. - Lease documents, if leased to another party. • Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value and test the value by: - Obtaining documentary evidence to support the valuation. - Make enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units and any other factors that could impact the value of the investment. - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.
G	RECEIVABLES AND PREPAYMENTS
G.1	If the SMSF uses accrual accounting, review each asset and determine if the SMSF was entitled to receive income for the year and if this had been received or accrued at balance date.
G.2	Obtain details of other receivables and ensure that they are correctly accounted for.
G.3	Verify that the receivable is current and has been received by the SMSF subsequent to period end or that it will be received by the SMSF.
G.4	If the amount is receivable from a related party, check that the disclosures are appropriate, and review this further as part of your compliance audit.
G.5	If the fund pays insurance or other expenses, ensure that these have been applied in the period to which they relate and prepaid items have been recorded in accordance with the accounting policies.

Ref	Audit Procedure
H	LIABILITIES
H.1	Review the value at which liabilities have been disclosed in the financial report and vouch to supporting documentation. Review the documentation and assess whether the amount and nature of the liabilities appears reasonable.
H.2	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
H.3	Review ageing of liabilities/payables and comment on any delay in payment.
H.4	Vouch prior year payables and accruals to payments during the year.
H.5	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
H.6	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
H.7	If the fund has a limited recourse borrowing arrangement ensure that the liability is accurately and appropriately recorded in accordance with the arrangement (refer suggested procedures at F10 above).
I	MEMBER'S ENTITLEMENTS / ACCRUED BENEFITS
I.1	- Obtain listing of all members account balances and check that the total agrees with accrued benefits in the financial report. - Review the allocation of revenue, expenses, income tax, ~~surcharge~~, excess contributions tax and other items to members to ensure that they have been correctly apportioned. - Ensure that the disclosures in the financial report are appropriate and consistent with the member's entitlements. ~~Check that vested benefits do not exceed net assets.~~
I.2	~~If the fund is a defined benefit fund, obtain and review a copy of the most recent actuarial valuation to confirm that the values in the valuation agreed with accrued and vested benefits in the financial report and that the accrued benefits do not exceed net assets.~~
J	RESERVES
J.1	Review the SMSF's documentation including the fund's governing rules and trustee minutes to ensure that the reserve is permitted and recorded in accordance with trustee policy.
J.2	Review the movements in the reserve during the period to ensure that they are clerically accurate and in accordance with the trustee's policy.
J.3	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
K	INVESTMENT AND OTHER REVENUE
K.1	<u>Analytical Review</u> - Calculate the SMSF's investment return as a percentage based on the net income as a proportion of average assets held by the SMSF over the period. - Compare this to the prior year as well as average market performance (for example, super ratings) for the period of the audit and confirm that the return is reasonable and not under or overstated.
K.2	<u>Interest Income</u> - Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received. - For bank interest, analytical review against ROI on -the bank audit confirmations
K.3	<u>Changes in Market Value</u> - Test the changes in market value calculations including realised changes in market value to ensure that they are correct. - Analytical review. - Tying into investments, for substantive audits.
K.4	<u>Dividends</u> - Vouch dividends received to dividend slips, published dividend rates or registry details. - Confirm the accounting treatment of franking credits (either on a net or gross basis) and ascertain accounting treatment is consistent with the details disclosed in the accounting policy notes.

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Ref	Audit Procedure
K.5	<u>Trust Distributions</u> Vouch distributions received and receivable to distribution advices, ensuring that the discounted capital gains and other income have been correctly classified for tax purposes.
K.6	<u>Rental Income</u> - Vouch rental income against agent's statements or other records ~~and cash receipts~~, as appropriate. - Review the disclosure of rental expenses in relation to the disclosure and distribution of net investment revenue to ensure it meets the requirements of the governing rules, the needs of members and the requirements of the SISR. - Analytical review against rental agreement and period of tenancy. - Check any rent reviews in the lease agreements during the period have been correctly applied.
K.7	<u>Other Income</u> If the SMSF receives other forms of income ensure that these are correctly calculated, earned and disclosed.
L	CONTRIBUTIONS AND TRANSFERS IN
L.1	<u>Concessional contributions</u> ~~Where an arm's length employer contributes to the fund and contributions are recorded on a cash basis, R~~review the amounts, ~~method of remittance, f~~frequency and pattern of contributions and if you suspect contributions may be being diverted from the fund seek confirmation of the contribution directly from the employer. - Where the contributions are from a related employer, obtain the employer's trial balance and or general ledger to verify contributions. - Test that contributions have been allocated to the member for whom they were remitted. - For concessional contributions made by the member, obtain a copy of the section 290-170 Notice of Intention to Deduct and confirm the details are consistent with the accounting treatment. - For members > 65, ensure that the work test has been met and the contribution was permitted. - Ensure no-TFN contributions were received.
~~L.2~~	<u>~~Non concessional contributions~~</u> ~~Obtain confirmation from the members as to the non concessional contributions made by them and test that they have been allocated to the member or member's spouse for whom they were received.~~
~~L.32~~	Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.
~~L.43~~	- If transfers in have been received, obtain the roll-over documentation and ensure that the transferee is a complying superannuation fund and correctly recorded as taxed or untaxed. - For members > 65, ensure that the work test has been met and that contributions are employer mandated contributions. - Ensure that all contributions not complying with Regulation 7.04 are refunded within 30 days.
~~L.54~~	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
~~L.65~~	Review expenses and other items that may give rise to a contribution as outlined in ATO Rulings and ensure that these are correctly accounted for as contributions.
M	EXPENSES
M.1	Perform an analytical review of expenses and assess for reasonableness against your knowledge of the SMSF and in comparison to the prior year's expenditure.
M.2	Vouch material items to invoices, ensuring the expenses are attributable to the SMSF or are apportioned correctly.
M.3	Agree administration fees to the agreement with the administrator.
M.4	Agree management fees to the agreement with the investment manager.
N	LUMP SUMS AND PENSIONS PAID
N.1	- Obtain a listing of all benefits paid and reconcile benefits paid ~~between general ledger and bank statement to prior year member statement, adjusted for current period transactions.~~ - For each benefit paid, review documentation including minutes or other documents confirming the commencement of a pension, correspondence to the members and rollover institutions and ensure that the benefit was duly authorised.

Ref	Audit Procedure
	- Confirm that each benefit was paid in accordance with the terms of the fund's governing rules. - For death benefits, ~~sight death certificate and~~ confirm if the benefit was paid in accordance with the fund's governing rules and, if applicable, a binding death benefit nomination. - For a total and permanent disability benefit, sight the medical certification regarding the inability of the member to work again. - For a total and temporary permanent disability benefit, sight the medical certification regarding the temporary inability of the member to work. ~~For each benefit paid ensure that the PAYG obligations have been correctly calculated and remitted by the SMSF.~~ - Ensure that pensions paid are within the minimum and maximum (if a transition to retirement pension) thresholds and that pensions are paid at least once annually, <u>and that a series of payments have been paid over the life of the pension account.</u> ~~Investigate liabilities at year end to ensure that pensions have been paid, and not just accrued.~~ ~~Review the terms of the pensions to ensure that the pensions have been calculated and paid in accordance with these terms.~~
O	TAX
O.1	Review tax work papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies, including: - Member contributions have been treated correctly as non-assessable unless the SMSF received a notice in accordance with section 290-170 of the ITAA 1997 stating that the member contribution is assessable. - Exempt Current Pension Income (ECPI) from assets used to pay current pensions is treated as non-assessable and an actuarial certificate has been obtained to confirm this if the fund has both accumulation and unsegregated pension assets. - ECPI has been correctly applied to income but not contributions. <u>If the SMSF derives ECPI, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with Tax Ruling TR 93/17 and section 8-1 of the ITAA 1997.</u> Cash bonuses (not rebates) received on life insurance policies are not included as taxable income. ~~If the SMSF derives ECPI, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with Tax Ruling TR 93/17 and section 8-1 of the ITAA 1997.~~ - Franking credits from dividends are correctly adjusted. - Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly. - Foreign tax credits are correctly adjusted, note that foreign tax credits may only be claimed to the extent of tax payable on foreign income. - CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount. - Ensure CGT cost base adjustments required by section 104-70 of the ITAA 1997 (relating to differences between accounting and tax distributions from trusts) have been recorded and adjusted correctly. - Non arm's length income has been correctly identified and tax applied at the appropriate rate.
O.2	<u>If the SMSF applies AASB 112 Where deferred tax is reported by the fund,</u> complete the following procedures: - Check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report including: - Deferred tax assets arising from unrealised losses are after discounting. - Deferred tax assets arising from tax losses have only been brought to account where the trustee is confident that these will be recoverable in the future. - Proving the deferred tax assets and liabilities represent the tax effect of timing differences.
O.3	Confirm that tax has been calculated for ordinary income at 15%, unless the SMSF has received a notice advising it is non-complying for tax purposes. <u>Ensure non-arm's length income is taxed appropriately</u>
O.4	Confirm that PAYG instalments and TFN credits paid by the SMSF during the period have been correctly identified and applied against the current tax liability.

P	GOING CONCERN
P.1	As the members of a defined contribution fund absorb any losses incurred, it is rare for these types of funds to have going concern issues. However, a going concern can arise when a fund has been wound up and the members were paid benefits exceeding their entitlements ~~or in the case of defined benefit funds, if the accrued benefits certified by the actuary exceed the net assets of the SMSF~~. Complete the following procedures in relation to going concern: • Review the net asset position of the fund to determine if a net asset deficiency exists. • ~~Review the actuarial valuation and assess the adequacy of any remedial action being taken by the employer sponsor or the trustee to cover the deficiency.~~ • Consider a modification to the auditor's report.
Q	SUBSEQUENT EVENTS
Q.1	Identify any subsequent events which would affect the financial report ~~of the current or future periods~~ , including any adverse events impacting investments, significant investment fluctuations and plans to wind up the fund that should be disclosed in the financial reports.
R	OTHER AUDIT CONSIDERATIONS
R.1	If there have been any transactions with related parties, ensure that these matters have been appropriately addressed and reported in accordance with the accounting policies adopted by the SMSF.
R.2	Check whether material commitments and contingencies are properly disclosed by reviewing or obtaining: • Trustee minutes. • Solicitors' representations. • Trustees' representations.
R.3	Consider the risk of fraud in the design of audit procedures and when evaluating trustees representations. Make reference to the requirements of ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> .
S	TRUSTEE REPRESENTATIONS
S.1	Obtain written representations from the trustee.
S.2	Evaluate that the representations appear reasonable and consistent with the other audit evidence and conclusions.
S.3	If necessary, seek corroborative evidence on trustee representations.
T	COMMUNICATIONS WITH TRUSTEES
	Check that all matters of governance interest arising from the audit are communicated to the trustees on a timely basis, including: • Responsibilities of the auditor in relation to the financial report audit, usually communicated in the engagement letter; • Overview of the planned scope and timing of the audit, usually communicated in the engagement letter but not in a level of detail that may compromise the effectiveness of the audit; • Auditors views about significant findings from the audit engagement; • ~~Significant matters discussed with management (if management are not the trustees) including~~ include : - ~~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;~~ - ~~Corrected misstatements that were determined by the trustees to be material to the financial report taken as a whole.~~ • Confirmation as to the independence of the auditor.

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

The following table, based on principles stated in APES 110 *Code of Ethics for Professional Accountants*, provides examples of some of the scenarios which practitioners may face when auditing SMSFs, the type of threats to independence the scenarios present and appropriate safeguards which may address those threats. Assurance practitioners are expected to be fully compliant with the requirements of APES 110 as required by Regulation 9A.06 of the SISR.²⁴⁰

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
1. An auditor is a trustee or director of a corporate trustee and/or a member of the fund	X	X		X		No safeguards are available which would enable the practitioner to perform audit work, as this involves clear self-interest threats. An auditor who undertakes such an engagement is in clear breach of their professional and ethical obligations.
2. A sole practitioner prepares a SMSF's accounts and performs the financial audit and compliance engagement.	X	X				No safeguards are available which would enable the practitioner to perform both the accounting and audit work, as this involves the auditor reviewing their own work. The auditor withdraws from either the accounting or audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
3. A sole practitioner signs the auditor's report for a SMSF and uses staff to perform the financial audit and compliance engagement work and to prepare the SMSF's accounts.	X	X			X	No safeguards are available which would enable the practitioner to sign the auditor's report as well as supervising the accounting work, as the practitioner is ultimately responsible for the accounting work and this amounts to reviewing their own work. The auditor withdraws from either the accounting or audit engagement.
4. A sole practitioner provides financial advice and audits the SMSF.	X	X	X			No safeguards are available which would enable the practitioner to perform both the financial advisory and audit work, as this involves the auditor in assessing the compliance implications of their own advice. The auditor withdraws from either the financial advisory or the audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
5. A two partner practice in which one partner is asked to audit the SMSF of which the other partner is a trustee.	X	X			X	No safeguards are available which would enable the practitioner to perform audit work, as this involves a clear self-interest threat. The auditor would not undertake the audit engagement.
6. A two partner practice in which one partner prepares the SMSF's accounts and the other partner conducts the audit.	X	X			X	Threats may be overcome by safeguards including removal of staff who prepare the accounts from the audit team, implementing policies and procedures prohibiting those in the firm who provide accounting services from making decisions on behalf of the SMSF, requiring source data and underlying assumptions to be generated by the SMSF, obtaining SMSF approval for any journal entries, obtaining the SMSF's acknowledgement of their responsibility for

²⁴⁰ In addition to these examples, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide*, Fourth Edition, February 2013.

Guidance Statement GS 009 Auditing Self-Managed Superannuation Funds

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
Common staff work on both engagements.						the accounting work performed by the firm and disclosing to the trustees the firm's involvement in both engagements.
7. A two partner practice where one partner provides financial advice to the SMSF and the other partner audits the SMSF and prepares the SMSF's accounts.	X	X	X			Threats may be overcome by applying safeguards which include each of the two partners performing one of the engagements, with appropriate segregation of the engagement teams, and the firm withdrawing from the third engagement. For example, if one partner conducts the financial advisory work, the second partner prepares the accounts and then the firm withdraws from the audit and segregates the staff working on the engagements which are retained. Additional safeguards may include: implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF and ensuring that the individual providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.
8. A firm prepares the SMSF's annual return and also undertakes the audit of the SMSF.						Where the client takes responsibility for the SMSF annual return including any significant judgements, it will not generally create threats to independence.
9. A sole practitioner audits numerous SMSFs but they are all administered by the same service provider who engages the auditor on behalf of the trustees. The sole practitioner is very reliant on fees generated by referrals from the service provider.	X				X	Safeguards include expanding the client base so that reliance on the administrator is reduced, declining to accept any further audits from the administrator, obtaining external quality reviews and ensuring that the practitioner has direct access to the trustees of each SMSF, so that matters arising during the audit may be communicated without fear of intimidation.
10. A member of the audit engagement team has a close or immediate relationship with the trustees of the SMSF. The auditor signing the audit opinion supervises the team member's work.				X		Safeguards include removing the audit member from the audit engagement team.
11. The auditor has provided accounting advice in relation to a material transaction of the SMSF which was then entered into on the basis of that advice.		X				Technical assistance on accounting principles and advice 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.
12. A partner in a multi-partner practice has had the SMSF as an audit client for "years" and regularly socialises with the SMSF's trustee.				X		The long and personal association with the trustee may compromise the partner's objectivity. Safeguards include transferring the engagement to another partner within the firm or quality control review of the audit findings, including conclusions on significant matters arising in the audit by another partner prior to sign-off of the audit opinion.
13. A practitioner or firm						The practitioner has implemented appropriate safeguards to avoid a self-review

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
providing administrative services to numerous SMSFs, outsources all of the SMSF audits to one approved SMSF auditor.						threat by referring the audit work to another auditor and it is the responsibility of that auditor to ensure that they are not as reliant on the referrals from the practitioner as to create a self-interest or intimidation threat.

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GS 009
(September 2015)

Guidance Statement GS 009

Auditing Self-Managed Superannuation Funds

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

Draft

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

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

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 009 *Auditing Self-Managed Superannuation Funds*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

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

The Guidance Statement does not prescribe or create new requirements.

Dated:

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 009

Auditing Self-Managed Superannuation Funds

Application

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

Issuance Date

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

Introduction

4. SMSFs are a specific type of superannuation fund which have fewer than five members and are regulated by the Australian Taxation Office (ATO). In addition, the SISA² gives ASIC the responsibility for the registration of approved SMSF auditors and setting competency standards. SMSFs are primarily governed by the requirements of the SISA, SISR, the *Income Taxation Assessment Acts 1936 and 1997* (ITAA) and a fund's governing rules, which include the trust deed and applicable legislation. Complying SMSFs are eligible for tax concessions, and may also receive Superannuation Guarantee (SG) contributions. Complying SMSFs are Australian superannuation funds which meet the requirements of the SISA and SISR and are "regulated"³ under the SISA.
5. The SISA, subsection 35C(1), requires SMSFs to be audited each financial year by an approved SMSF auditor (the auditor),⁴ who is required to complete both the financial audit and the compliance engagement and sign the auditor's report before a SMSF may submit its Annual Return.⁵ The auditor reports to the trustees⁶ in the "approved form", as issued and updated from time to time, by the ATO,⁷ which includes opinions under two sections:
 - (a) Part A: Financial report; and
 - (b) Part B: Compliance report.

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

² See Division 1, Section 6 of the SISA.

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

⁴ Approved SMSF auditor is defined in paragraph 13.

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

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

⁷ The approved form auditor's report is contained within the *Instructions and form for approved SMSF auditors - Self-managed superannuation fund independent auditor's report* (NAT11466). The auditor's report is available from the ATO's website www.ato.gov.au/Superfunds.

6. This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which the auditor has with respect to conducting SMSF audit engagements, and to provide guidance to the auditor on matters which the auditor considers when planning, conducting and reporting on the financial audit and compliance engagement of a SMSF.
7. This Guidance Statement does not extend the responsibilities of the auditor beyond those which are imposed by the SISA, SISR, Australian Auditing Standards (Auditing Standards), Standards on Assurance Engagements (ASAEs) or other applicable legislation.
8. This Guidance Statement comprises:
 - (a) an introductory section, which provides guidance on matters common to both the financial audit and compliance engagement;
 - (b) Part A, which provides guidance on the financial audit; and
 - (c) Part B, which provides guidance on the compliance engagement.
9. This Guidance Statement is to be read in conjunction with, and is not a substitute for referring to the requirements and guidance contained in:
 - (a) the Australian Auditing Standards , in which references to the “auditor” includes an approved SMSF auditor conducting the financial audit of a SMSF;
 - (b) applicable Standards on Assurance Engagements , specifically ASAE 3100 *Compliance Engagements*, in which references to the “assurance practitioner” include an auditor conducting a compliance engagement of a SMSF;
 - (c) the SISA and SISR;
 - (d) Applicable ATO Rulings, Interpretive Decisions (ID) and Guides and the Income Tax Assessment Acts; and
 - (e) Applicable ASIC Regulatory Guides and Class Orders.⁸
10. This Guidance Statement does not provide guidance on auditing a defined benefit fund⁹ as these funds are not generally prevalent as SMSFs.

Definitions

11. A SMSF meets the definition of a SMSF of the SISA¹⁰ if:
 - (a) it has fewer than five members;
 - (b) each individual trustee or director of the corporate trustee is a member of the fund, unless it is a single member fund, in which case the sole member is either:
 - (i) a director of the corporate trustee or one of two directors who are related or, if unrelated, the member is not an employee of the other director; or
 - (ii) one of two individual trustees who are related or, if unrelated, the member is not an employee of the other trustee;
 - (c) each member of the fund is a trustee or a director of the corporate trustee;
 - (d) no member is an employee of another member, unless they are relatives; and

⁸ Further detail is available at www.asic.gov.au/smsf-auditor.

⁹ Defined Benefit Fund defined in Regulation 1.03(1) of the SISR.

¹⁰ See subsections 17A(1) & (2) of the SISA.

- (e) no trustee, or director of a corporate trustee, receives remuneration for any duties or services performed by a trustee or director in relation to the fund, other than where there is exception and the trustee has the skills to perform the service.¹¹
12. A SMSF does not fail to satisfy the definition of a SMSF of the SISA¹² if:
- (a) a member of the fund has died and the legal personal representative of the member is a trustee of the fund or a director of a body corporate that is the trustee of the fund, in place of the member, during the period:
 - (i) beginning when the member of the fund died; and
 - (ii) ending when death benefits commence to be payable in respect of the member of the fund; or
 - (b) the legal personal representative of a member of the fund is a trustee of the fund or a director of a body corporate that is the trustee of the fund, in place of the member, during any period when:
 - (i) the member of the fund is under a legal disability; or
 - (ii) the legal personal representative has an enduring power of attorney¹³ in respect of the member of the fund; or
 - (c) if a member of the fund is under a legal disability because of age and does not have a legal personal representative - the parent or guardian of the member is a trustee of the fund in place of the member; or
 - (d) an appointment under section 134 of an acting trustee of the fund is in force.
13. An approved SMSF auditor¹⁴ is a person who is registered as an approved SMSF auditor with ASIC¹⁵, but does not include:
- (a) a person for whom an order disqualifying that person from being an approved SMSF auditor is in force; or
 - (b) a person who is disqualified from being or acting as an auditor of any superannuation entity.

Trustees' Responsibilities

14. The responsibilities of the SMSF's trustees are contained in the SISA, SISR, and the governing rules of the fund. The trustees have ultimate responsibility for the compliance of the SMSF with the SISA and SISR and any other legislation, such as the taxation legislation affecting SMSFs. Certain covenants affecting the behaviour of the trustees of a SMSF are deemed to be contained in the SMSF's governing rules under section 52B and 52C of the SISA, which are in summary:
- (a) to act honestly;
 - (b) to exercise care, skill and diligence;
 - (c) to act in the best interests of beneficiaries;

¹¹ Section 17B of the SISA allows for exceptions in relation to remunerations of trustees.

¹² See subsections 17A (3) & (4) of the SISA.

¹³ The applicability of enduring powers of attorney in this circumstance will vary depending on the relevant state legislation. Guidance is also provided in Self-Managed Superannuation Funds ATO Ruling *SMSFR 2010/2*.

¹⁴ See subsection 10(1) of the SISA.

¹⁵ See SISA section 128B and ASIC Regulatory Guide 243 *Registration of self-managed superannuation fund auditors* provides guidance on how to apply for registration as an approved SMSF auditor.

- (d) to keep the money and assets of the SMSF separate from the money and assets held personally by the trustees and from those of any employer-sponsor of the SMSF or their associates;¹⁶
- (e) not to enter into a contract or agreement that would hinder the trustees in properly performing their duties;
- (f) if applicable to the fund, to formulate and give effect to a reserves strategy;
- (g) to formulate, review regularly and give effect to an investment strategy; and
- (h) to allow beneficiaries access to prescribed information and documentation.

The trustees' compliance responsibilities are summarised on the self-managed super funds page of the ATO's website.¹⁷

15. The trustees of a SMSF are required, under the SISA, to ensure that financial reports of the SMSF are prepared and signed for each year of income and that an approved SMSF auditor is appointed no later than 45 days before the due date for lodgement of the SMSF annual return.¹⁸

Auditor's Responsibilities

16. The professional obligations of approved SMSF auditors under the SISA¹⁹ are to:
- (a) complete the continuing professional development requirements prescribed by the regulations;²⁰
 - (b) hold a current policy of professional indemnity insurance;²¹
 - (c) comply with:
 - (i) any competency standards²² ASIC determines;
 - (ii) any standards issued by the Auditing and Assurance Standards Board (unless not considered applicable to the audit of that particular SMSF); under:
 - ◇ section 336 of the *Corporations Act 2001*; or
 - ◇ section 227B of the *Australian Securities and Investments Commission Act 2001*; and
 - (d) comply with the auditor independence requirements produced by the Accounting Professional and Ethical Standards Board Limited and set out in APES 110 *Code of Ethics for Professional Accountants* as prescribed by the regulations.²³
17. In addition, approved SMSF auditors may be subject to competency requirements, for the audit of SMSFs, by virtue of their membership of a professional body.²⁴ For example, members of CPA Australia, Institute of Chartered Accountants Australia and New Zealand (ICAAANZ) and Institute of Public Accountants (IPA) are required to comply with competency

¹⁶ See regulation 4.09A of the SISR.

¹⁷ See <https://www.ato.gov.au/Super/Self-managed-super-funds>

¹⁸ See regulation 8.02A of the SISR.

¹⁹ See subsection 128F of the SISA.

²⁰ See regulation 9A.04 of the SISR.

²¹ See regulation 9A.05 of the SISR.

²² See ASIC Class Order CO 12/1687 *Competency Standards for approved SMSF auditors*.

²³ See regulation 9A.06 of the SISR.

²⁴ See competency standards for Fellows of the National Tax and Accountants' Association (NTAA) auditing SMSFs (December 2008) issued by NTAA.

requirements²⁵ 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.

18. The auditor is required under the SISA to:

- (a) provide an auditor's report on the SMSF's operations for the year to the trustees in the approved form,²⁶ no longer than 28 days after the trustee of the fund has provided all documents relevant to the preparation of the report to the auditor;²⁷
- (b) report in writing to the trustees, if the auditor forms the opinion in the course of or in connection with the performance of the audit of the SMSF, that:
 - (i) any contraventions of the SISA or SISR, may have occurred, may be occurring or may occur in relation to the SMSF (section 129 of the SISA); or
 - (ii) the financial position of the SMSF may be, or may be about to become, unsatisfactory (section 130 of the SISA); and
- (c) report in writing to the ATO²⁸ using the approved form Auditor/actuary contravention report (ACR) and instructions (ACR instructions),²⁹ if the auditor forms the opinion in the course of or in connection with the performance of the audit of a SMSF, that:
 - (i) it is likely that a contravention, may have occurred, may be occurring or may occur, of the requirements of the SISA or SISR, specified by the ATO in the ACR, which meet the tests specified in the ACR instructions (section 129 of the SISA); or
 - (ii) the financial position of the SMSF may be, or may be about to become, unsatisfactory (section 130 of the SISA).

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

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

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

In addition the approved form auditor's report requires the auditor to include a statement in the auditor's report that they have complied with the independence requirements prescribed by the SISR and the competency standards set by ASIC.³⁰

²⁵ See *Competency Requirements for Auditors of Self-Managed Superannuation Funds* (February 2008) issued by Representatives of the Australian Accounting Profession, CPA Australia, ICAA and IPA ([http://www.charteredaccountants.com.au/Industry%20Topics/Superannuation/SMSF - Auditor-requirements-and-competencies](http://www.charteredaccountants.com.au/Industry%20Topics/Superannuation/SMSF-Auditor-requirements-and-competencies)).

²⁶ See section 35C of the SISA.

²⁷ See regulation 8.03 of the SISR.

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

²⁹ Auditor/actuary contravention report instructions (NAT 11299) and ACR (NAT 11239), see: www.ato.gov.au/Superfunds

³⁰ ASIC class order CO 12/1687.

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

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

Conduct the Financial Audit in Accordance with Auditing Standards

22. The auditor complies with all of the requirements in each of the Auditing Standards relevant to the financial audit in determining the audit procedures to be performed in conducting an audit in accordance with the Auditing Standards. The key Auditing Standards which are relevant to the conduct of the financial audit of a SMSF include, but are not limited to:
- (a) ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* requires the auditor to comply with relevant ethical requirements, including those pertaining to independence.
 - (b) ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* requires the auditor to:
 - (i) comply with the relevant ethical requirements, including those pertaining to independence, relating to financial report audit engagements;
 - (ii) comply with all Australian Auditing Standards relevant to the audit;
 - (iii) plan and perform an audit of a financial report by exercising professional judgement;
 - (iv) plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated; and
 - (v) To obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework.
 - (c) ASA 210 *Agreeing the Terms of Audit Engagements* requires the terms of the audit engagement to be agreed with the fund trustee, in an audit engagement letter or other suitable form of written agreement. On recurring audits, the auditor assesses whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the fund trustee of the existing terms of the audit engagement. The auditor obtains the trustees acknowledgement that their responsibilities under SISA and the SISR include the preparation of financial statements and records, establishing and maintaining internal controls, particularly those preventing and detecting fraud and error, and providing the auditors with any information, explanations and assistance required for the audit.
 - (d) ASA 220 *Quality Control for an Audit of a Financial Report and Other Financial Information* requires the engagement partner to:
 - (i) remain alert, through observation and making enquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team, throughout the audit engagement;
 - (ii) form a conclusion on compliance with the independence requirements that apply to the audit engagement;

- (iii) be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and determine that conclusions reached in this regard are appropriate;
 - (iv) be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capability to perform the audit engagement;
 - (v) take responsibility for the direction, supervision and performance of the audit engagement; and
 - (vi) take responsibility for the auditor's report being appropriate in the circumstances.
- (e) ASA 230 *Audit Documentation* requires preparation of documentation:
- (i) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the Australian Auditing Standards and applicable legal and regulatory requirements;
 - (ii) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the results of the audit procedures performed, the audit evidence obtained, significant matters arising during the audit, the audit conclusion reached thereon and significant professional judgements made in reaching those conclusions; and
 - (iii) which is assembled in an audit file on a timely basis (ordinarily not more than 60 days) after the date of the auditor's report.
- (f) ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* requires the auditor to consider the risks of material misstatements in the financial report due to fraud.³¹
- (g) ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report* requires the auditor to obtain a general understanding of the legal and regulatory framework applicable to the entity, how the entity is complying with that framework, perform further audit procedures to help identify instances of non-compliance with those laws and regulations that may have a material effect on the financial report and obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report. For example, non-compliance with requirements of the SISA, SISR or taxation legislation by an SMSF, such as early access of benefits or significant in-house assets issues, may expose the SMSF to additional tax liabilities which may impact materially on the SMSF's financial report.
- (h) ASA 260 *Communication with Those Charged with Governance* requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate, usually the trustees in the audit of an SMSF, and communicate with them the responsibilities of the auditor in relation to the financial report audit, an overview of the planned scope and timing of the audit, significant findings from the audit, and auditor independence on a timely basis.
- (i) ASA 265 *Communication Deficiencies in Internal Control to Those Charged with Governance and Management* requires the auditor to communicate appropriately to

³¹ 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.

those charged with governance and management, deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions. Regardless of whether the auditor has relied on internal controls or not, deficiencies of internal controls identified during the audit may still need to be communicated with the trustees of the fund.

- (j) *ASA 300 Planning an Audit of a Financial Report* requires the auditor to perform preliminary engagement activities, including evaluation of their own compliance with relevant ethical requirements including independence, to establish and document an overall audit strategy that sets the scope, timing and direction of the audit, that guides the development of the audit plan and plan the nature, timing and extent of direction and supervision of the engagement team members and review of their work.
- (k) *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* requires the auditor to obtain an understanding of the entity (the SMSF) and its environment, including its internal controls to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion level.
- (l) *ASA 320 Materiality in Planning and Performing an Audit* requires the auditor to determine materiality for the financial report as a whole when determining the overall audit strategy, and to determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.
- (m) *ASA 330 The Auditor's Responses to Assessed Risks* requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial report level and design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. Further audit procedures may comprise only substantive procedures or, when reliance is placed on the operating effectiveness of controls to reduce substantive testing, include tests of controls.
- (n) *ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation* requires the auditor to determine whether the service organisation's activities are of significance to the entity and relevant to the audit and, if so, the auditor is required to obtain a sufficient understanding of the entity and its environment to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risk. The auditor may need to obtain evidence of the operating effectiveness of the service organisation's controls and may use a report of a service organisation auditor to provide that evidence. In using the service auditor's report, the auditor considers the professional competence of the service auditor, the nature and content of the report, the scope of the work performed and whether the nature, timing and extent of the tests of controls and results that are relevant, provide sufficient appropriate audit evidence about the operating effectiveness of those controls to support the assessed risks of material misstatement. *Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services* provides further guidance to an auditor in obtaining sufficient appropriate audit evidence when the SMSF uses a third party service organisation for investment management services, including custody, asset management or investment administration.
- (o) *ASA 450 Evaluation of Misstatements Identified during the Audit* requires the auditor to determine whether the overall audit strategy and audit plan needs to be revised if the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or approaches materiality determined in accordance with ASA 320.

- (p) ASA 500 *Audit Evidence* requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. It requires the auditor to consider the relevance and reliability of the information to be used as audit evidence.
- (q) ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims* requires the auditor to design and perform audit procedures to identify litigation and claims which may give rise to a risk of material misstatement, and accounted for and disclosed in accordance with the applicable financial reporting framework. For an SMSF, material legal matters may include: the divorce of a member which may threaten the liquidity of the SMSF, an ATO investigation into the trustee or legal action commenced by the SMSF against the SMSF's administrators or investment managers, each of which may have a material effect on the financial report.
- (r) ASA 505 *External Confirmations* requires the auditor to request external confirmations where they are necessary to obtain sufficient appropriate audit evidence.
- (s) ASA 510 *Initial Audit Engagements – Opening Balances* requires the auditor to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report, whether the prior period closing balances have been correctly brought forward and that appropriate accounting policies are applied consistently.
- (t) ASA 520 *Analytical Procedures* requires the auditor to design and perform analytical procedures to address the assessed risks of material misstatement near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial report is consistent with the auditor's understanding of the entity.
- (u) ASA 530 *Audit Sampling* requires if sampling is used, the auditor, when designing the sample to consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn and to evaluate whether the results of the sample provide a reasonable basis for concluding on the population.
- (v) ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures* requires the auditor to obtain sufficient appropriate audit evidence that accounting estimates, including fair value accounting estimates and disclosures are reasonable and are in accordance with the applicable financial reporting framework, which is chosen by the trustee in the case of an SMSF. The requirements and guidance in ASA 540 are particularly relevant to the audit of trustees' valuations, which are common in SMSF's. Regulation 8.02B of the SISR requires SMSF assets to be valued at market value, refer paragraph 164 for further guidance.
- (w) ASA 550 *Related Parties* requires the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence that all related party relationships and transactions have been identified, and have been appropriately recorded and disclosed³² in the financial report.
- (x) ASA 560 *Subsequent Events* requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report have been identified, and if material, are properly disclosed and accounted for.
- (y) ASA 570 *Going Concern* requires the auditor to consider the appropriateness of use of the going concern assumption in the preparation of the financial report.

³² Since the majority of SMSFs operate under the special purpose framework, they may elect not to comply with the disclosure requirements of AASB 124 *Related Party Disclosures*.

- (z) ASA 580 *Written Representations* requires the auditor to request written representations from management that they are responsible for the preparation of the financial report in accordance with the applicable reporting framework, they have provided the auditor with all relevant information and access, and that all transactions have been recorded and reflected in the financial report. In the case of a SMSF, these representations are obtained from the trustees.
- (aa) ASA 620 *Using the Work of an Auditor's Expert* requires the auditor, when using the work of an auditor's expert, to obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit and to evaluate the competence, capabilities and objectives of the auditor's expert.
- (bb) ASA 700 *Forming an Opinion and Reporting on a Financial Report* requires the auditor to form an opinion on whether the financial report is prepared, in all material respects, in accordance with the applicable financial framework, and to express the auditor's report in writing.
- (cc) ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* requires the auditor to modify the auditor's report when it is not possible to issue an unmodified audit opinion. The circumstances may dictate that, due to a conflict, a significant uncertainty, a limitation of scope or a lack of sufficient appropriate audit evidence, that it is not possible to issue an unqualified audit opinion. In these circumstances, ASA 705 requires the auditor to issue either a qualified audit opinion, a disclaimer of opinion or an adverse opinion.
- (dd) ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* contains the requirements of how the emphasis matter of paragraph is to be shown in the auditor's report.
- (ee) ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports* requires the auditor to determine whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified.
- (ff) ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* specifies the form of the auditor's report on special purpose financial reports, which for SMSFs is reflected in the approved form auditor's report issued by the ATO.³³ Auditor's reports for SMSF's are to include an Emphasis of Matter paragraph for periods commencing on or after 1 January 2010. This paragraph draws attention to the note of the financial report which describes the basis of accounting.

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

23. ASAE 3100, which is to be read in conjunction with ASAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, is applicable to the conduct of the compliance engagement of SMSFs. ASAE 3100 requires the auditor to:
- Comply with applicable Standards on Assurance Engagements.
 - Comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.
 - Implement quality control procedures.
 - Meet acceptance and continuance procedures.

³³ In the rare circumstances where the SMSF is a reporting entity, the SMSF is required to prepare a general purpose financial report and the auditor refers to the requirements in ASA 700 *The Auditor's Report on a General Purpose Financial Report*.

- Agree the terms of the engagement in writing.
 - Plan the compliance engagement so that it will be performed effectively.
 - Consider materiality and compliance engagement risk³⁴ when planning and performing the compliance engagement.
 - Reduce compliance engagement risk to an acceptable level in the circumstances of the compliance engagement.
 - Obtain sufficient appropriate evidence on which to base the conclusion and evaluate the impact on the conclusion of any compliance breaches noted.
 - Consider the effect of events up to the date of the compliance report.
 - Prepare, on a timely basis, documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion and evidence that the engagement was performed in accordance with ASAE 3000 and ASAE 3100.
 - Express a conclusion about the subject matter information, which for an SMSF is compliance in all material respects with the SISA and SISR requirements specified in the approved form auditor's report.
24. Since ASAE 3100 is read in conjunction with ASAE 3000, where specific guidance is contained in ASAE 3000 and only referenced in ASAE 3100, this guidance statement makes direct reference to ASAE 3000. Although Auditing Standards do not apply to compliance engagements, they may nevertheless provide helpful guidance in the conduct of a compliance engagement.
25. ASAE 3402, *Assurance Reports on Controls at a Service Organisation*, provides for reports on controls which, if available from a service organisation used by a SMSF may be relevant to the conduct of the financial audit of that SMSF. ASAE 3402 deals with assurance engagements undertaken by an auditor to provide a report for use by user entities and their auditors, on the controls at a service organisation that provides a service to user entities that is likely to be relevant to user entities' internal controls as they relate to financial reporting. It complements ASA 402, in that reports prepared in accordance with this standard are capable of providing appropriate evidence under ASA 402.

Preliminary Engagement Activities

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

These procedures are outlined below.

³⁴ Compliance engagement risk is defined in ASAE 3100, paragraph 11 as: the risk that the assurance practitioner expresses an inappropriate conclusion when the entity (SMSF) is materially non-compliant with the requirements as measured by the suitable criteria (SISA sections and SISR regulations as specified in the ATO approved form auditor's report).

Acceptance and Continuance Procedures

27. Under the Auditing Standards and ASAE 3000, the auditor only accepts or continues an engagement if nothing comes to the auditor's attention to indicate that the requirements of the fundamental ethical principles, the Auditing Standards and ASAE 3000 will not be satisfied.
28. For an initial audit, where there has been a change of auditor, the auditor communicates with the previous auditor in accordance with the relevant ethical requirements to ensure that there is no impediment or restriction in accepting and conducting the audit. The new auditor seeks permission from the trustees³⁵ to communicate with the previous auditor.

Ethical Requirements

29. In accordance with ASA 102, ASA 200 and ASAE 3000, the auditor is required to comply with relevant ethical requirements relating to audit engagements, which include the applicable code of ethics of a professional accounting body (the Code of Ethics).³⁶ The fundamental principles of professional ethics comprise:
 - (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.

The concept of independence is fundamental to compliance with the principles of integrity and objectivity and is mandatory³⁷ for auditors undertaking the audit of a SMSF.

30. Under ASA 220 and ASAE 3100, the auditor accepts an engagement only when the auditor is satisfied that they, and the engagement team if applicable, have met the relevant ethical requirements.
31. The auditor ensures that they possess, or if applicable the engagement team conducting the audit collectively possess, the appropriate capabilities, competence and time to conduct the audit in accordance with the Auditing Standards, applicable Standards on Assurance Engagements and legislative requirements. Capabilities and competence are developed through a variety of means, including professional education, training, practical experience, coaching and mentoring by more experienced staff. Under the SISA³⁸ the auditor is required to comply with competency standards set out by ASIC.³⁹ In addition, meeting the applicable competency requirements of their professional bodies will assist SMSF auditors to maintain the competence, knowledge, skills and capabilities necessary to perform SMSF audits satisfactorily.
32. Under ASA 250, the auditor obtains a general understanding of the legal and regulatory environment applicable to the SMSF. A sound and current knowledge of superannuation legislation, including the SISA and SISR, relevant taxation legislation and ATO Rulings and Determinations, is necessary for the auditor to meet this requirement.

³⁵ See GS 011 *Third Party Access to Audit Working Papers*, paragraph 49.

³⁶ In Australia, the applicable code of ethics of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional and Ethical Standards Board. This Code of Ethics has been adopted by CPA Australia, IPA and ICAA and is applicable to their members. Members of the ATMA are also required to conform with this code under the ATMA by-laws. Fellows of the NTAA who obtained fellowship by virtue of holding a practising certificate from one of the professional accounting bodies, will be members of one of those bodies and consequently are also required to comply with the Code of Ethics.

³⁷ See regulation 9A.06 of the SISR.

³⁸ See subsection 128Q of the SISA.

³⁹ See ASIC Class Order CO 12/1687.

Independence

33. ASA 220 requires the engagement partner to form a conclusion on compliance with the independence requirements applying to the audit engagement which are contained in the Code of Ethics. ASAE 3100 requires compliance with the fundamental ethical principles on compliance engagements, for which the concept of independence is integral. The SISA⁴⁰ and the SISR⁴¹ requires the auditor to comply with the auditor independence requirements prescribed by the APES 110 *Code of Ethics for Professional Accountants*.⁴²
34. Overall, independence requires both:
- (a) independence of mind - the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional scepticism; and
 - (b) independence in appearance - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the engagement team's, integrity, objectivity or professional scepticism had been compromised.
35. The Code of Ethics provides a framework of principles that auditors and members of audit teams use to ensure that independence of mind and independence in appearance are not compromised.
36. When assessing independence the auditor:
- (a) identifies any threats to independence;
 - (b) evaluates the significance of the threats; and
 - (c) if the threats are other than clearly insignificant, identifies and applies safeguards to eliminate or reduce the threats to an acceptable level.
37. The threats to independence in a SMSF audit engagement may include:
- Self-interest threat, which occurs when a firm or a member of the audit team could benefit from a financial interest in, or other self-interest conflict with, an audit client. For example, this could arise if the auditor, member of the audit team or their immediate family member is a trustee or member of the SMSF. This threat will also occur if the auditor or the audit firm relies on a single SMSF audit referral source for a significant amount of revenue.
 - Self-review threat, which occurs when any product such as a set of financial accounts, or a judgement of a previous engagement needs to be re-evaluated in reaching conclusions on the audit engagement so that the auditor is reviewing their own work. For example, where a member of the audit team prepared the SMSF's financial report or accounting records.
 - Advocacy threat, which occurs when a firm, or member of the audit team, promotes, or may be perceived to promote an audit client's position to the point that objectivity may be, or be perceived to be, compromised. For example, when an audit team member acts as an advocate for the SMSF in litigation or a dispute.

⁴⁰ See subsection 128F (d) of the SISA.

⁴¹ See regulation 9A.06 of the SISR.

⁴² In addition, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide* Fourth Edition, February 2013.

- Familiarity threat, which is when, by virtue of a close relationship with an audit client, its directors, officers or employees, the firm or a member of the audit team becomes too sympathetic to the client's interests. For example, when a close family member of the auditor is a trustee or member of the SMSF or an employee of the SMSF's administrator or where the auditor has a long association with a trustee.
 - Intimidation threat, which is when a member of the audit team is deterred from acting objectively by threats, actual or perceived, from the trustees of the SMSF or the directors, officers or employees of a related entity of a trustee or their advisors or the accountant of the trustee. This may also occur where an auditor is subject to intimidation by a colleague in their own firm who has a vested interest in retaining the SMSF client because they are the SMSF's accountant or financial adviser. For example, a threat of replacement over a disagreement with the application of an accounting principle or the loss of other general accounting or tax work or the loss of employment if the auditor's opinion is modified or an ACR is submitted to the ATO. An intimidation threat may also arise where a SMSF administrator pressures the auditor to reduce inappropriately the extent of work performed in order to reduce fees in circumstances where the administrator refers a significant number of SMSF audit clients.
38. Safeguards to independence may be:
- (a) created by the profession, legislation or regulation;
 - (b) within the SMSF; or
 - (c) within the firm's own systems and procedures.
39. Safeguards created by the profession, legislation or regulation, generally include the following:
- Educational, training and experience requirements for entry into the profession.
 - Continuing education requirements.
 - Professional standards, monitoring and disciplinary processes.
 - External review of a firm's quality control system.
 - Legislation covering the independence requirements of the firm.
 - Recommendations on independence from relevant regulators.
40. Safeguards within the SMSF may be limited, as by its very nature, a SMSF is a small entity with limited scope for segregation of duties. Hence reliance on internal safeguards may not be possible and the auditor ordinarily relies on the safeguards created by the profession, legislation and regulation and those safeguards created by internal systems within the auditor's firm to enhance independence.
41. In evaluating threats to independence and considering applicable safeguards, the auditor considers the nature of the SMSF, the range of services provided to the audit client and the relationships the auditor and the audit team have with the SMSF's trustees, financial adviser, accountants, administrator, actuary and any other person or organisation involved with the management or operation of the SMSF.
42. Assisting an audit client in the preparation of accounting records or financial reports may create a self-review threat when those records and reports are subsequently audited by the same firm. If the firm's staff also make management decisions for the SMSF, which may occur if the firm is providing administrative services to the SMSF, there are no safeguards available to reduce the self-review threat to an acceptably low level, other than withdrawal from either the administration or the audit engagement.

43. If, however, the accounting services provided are of a routine or mechanical nature, such as posting transactions and entries approved by the SMSF or preparing the financial report based on a trial balance provided by the SMSF, the self-review threat may be reduced to an acceptably low level by applying safeguards, including:
- Making arrangements so accounting services are not performed by a member of the audit team.
 - Eliminating intimidation threats by ensuring clear guidelines protect the auditor from undue influence by others in the firm. Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the SMSF.
 - Requiring the source data for the accounting entries to be originated by the SMSF.
 - Requiring the underlying assumptions to be originated and approved by the SMSF.
 - Obtaining the SMSF's approval for any proposed journal entries or other changes affecting the financial report.
 - Obtaining the SMSF's acknowledgement of their responsibility for the accounting work performed by the firm.
 - Disclosing to the trustees the firm's involvement in both engagements.
44. Provision of taxation services to a SMSF which is also an audit client would not of itself create a threat to independence that could not be mitigated by safeguards.
45. Provision of financial advice to a SMSF which is also an audit client may create advocacy and self-review threats. These threats may be reduced to an acceptably low level by safeguards such as:
- Implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF.
 - Using staff and partners who are not members of the audit team to provide the financial advice.
 - Eliminating intimidation threats by ensuring clear guidelines protect the auditor from undue influence by others in the firm.
 - Ensuring that the individual providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.
46. Where the audit firm or individual partner is unduly reliant on the audit fees from a particular group of SMSFs, such as those SMSFs referred by a single referral source, the concern about the possibility of losing the referrals may create a self-interest, advocacy or intimidation threat. Safeguards include diversifying the client base to spread the source of revenue so that the potential for undue influence is removed. In addition, the audit firm establishes policies and procedures around engagement quality reviews⁴³. These policies may include contracting of suitably qualified external persons or other firms⁴⁴.
47. Safeguards that the auditor may apply to manage other identified self-interest, advocacy, familiarity or intimidation threats to independence may include:
- Prohibiting the holding of direct, or material indirect, financial interests by the auditor in closely held investments of the SMSF, such as a joint venture or property syndicate.

⁴³ See ASQC 1, paragraph 35.

⁴⁴ See ASQC 1, paragraph A50.

- Removal from the SMSF audit team of any personnel with a close relationship with the trustees of the SMSF, including relatives of the trustees.
48. In situations in which no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the audit engagement.
49. Appendix 5 of this Guidance Statement provides a number of practical examples of SMSF audit engagements and the threats to independence posed by those engagements, as well as some appropriate safeguards which may address those threats.

Professional Judgement and Scepticism

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

Quality Control

51. Under ASA 220 and ASAE 3100, the engagement partner implements procedures to ensure quality control systems are applied to both the financial audit and compliance engagement including:
- Taking responsibility for overall quality on the financial audit and compliance engagement.
 - Considering whether members of the engagement team have complied with relevant ethical requirements.
 - Forming a conclusion on compliance with relevant independence requirements.
 - Ensuring that requirements in relation to acceptance and continuance of client relationships and specific audit engagements have been followed and that conclusions reached are objective, appropriate and have been adequately documented.
 - Assigning audit engagement teams which possess collectively the appropriate capabilities, competence and time to perform the engagements in accordance with AUASB Standards and regulatory and legal requirements.
 - Directing, supervising and performing the audit engagement in accordance with AUASB Standards and regulatory and legal requirements.
 - Issuing an auditor's report that is appropriate in the circumstances and supported by sufficient appropriate audit evidence.
 - Consulting appropriately on difficult or contentious matters both within the engagement team and with others within or outside the firm, and documenting and implementing agreed conclusions.

- Monitoring quality adequately against firm and professional standards, including the Auditing Standards and Standards on Assurance Engagements.

Agree the Terms of Engagement

52. Under ASA 210, the auditor is required to agree the terms of the audit engagement in writing with the SMSF trustees prior to conducting the audit. This is usually in the form of an engagement letter to the trustees. ASA 210 provides guidance on the principal contents of an engagement letter.
53. The trustees are required to appoint the auditor at least 45 days prior to the date that the SMSF annual return is due to be lodged.⁴⁵ Either the trustees may be involved in the selection and appointment of the auditor or the SMSF's accountants, administrators or financial planners may assist with the sourcing and recruitment of an auditor for the SMSF. In either case, the trustees approve the appointment in writing before the audit commences, usually by signing the engagement letter and indicating their approval in a trustee minute. The engagement letter is between the auditor and the trustees of the SMSF and not the auditor and the party referring the engagement such as the accountant or administrator.
54. For a SMSF audit engagement, the engagement letter ordinarily:
- Describes the objective and scope of the financial audit and compliance engagement, including the sections and regulations of SISA and SISR against which the auditor will be reporting.
 - Identifies the responsibilities of the auditor.
 - Identifies the responsibilities of the trustees, including:
 - Establishing and maintaining an adequate internal control structure.
 - Preparing the SMSF's financial report.
 - Keeping the records of the SMSF secure and for the statutory time periods.
 - Conducting the affairs of the SMSF in compliance with all relevant provisions of SISA, SISR and the fund's governing rules throughout the year.
 - Sets out the reporting requirements of the auditor, including those imposed by sections 129 and 130 of the SISA.
 - Includes a notice to the trustees that the audit records and auditor's work may be subject to review by the professional body of which the auditor is a member, ASIC or the ATO.
55. ASA 210 does not require engagement letters to be issued every year. However, on recurring audits, the auditor considers whether it is appropriate to confirm the terms of the engagement in writing due to the circumstances of the engagement, including when there is:
- A revision of the terms of the engagement.
 - An indication that the trustees misunderstand the objective and scope of the audit.
 - A change in trustees.
 - A significant change in the nature or size of the SMSF.

⁴⁵ Requirement under regulation 8.02A of the SISR for appointments after 1 July 2013.

- 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.

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

Planning

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

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

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

59. Adequate planning:

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

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

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

- The auditor's previous experience, if any, with the SMSF.
61. An annual review of the audit plan is necessary to ensure that it is updated to reflect the current circumstances of the SMSF and any changes in legislation that may affect the SMSF.

Overall Audit Strategy

62. Under ASA 300, the auditor is required to establish the overall audit strategy for the financial audit and this is mirrored in the guidance in ASAE 3100 for the compliance engagement. The overall audit strategy sets the scope, emphasis, timing, direction and conduct of the audit, including the resources required for the audit and supervision of the audit team. The audit strategy is based on the results of the preliminary work performed and the auditor's experience gained on any previous audit engagements with the SMSF.
63. The complexity of the audit strategy will vary with the size, nature and complexity of the SMSF.⁴⁶ 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.
64. In conducting a SMSF audit, the auditor obtains a preliminary understanding of the SMSF, including the SMSF's trust structure, nature of its investments and administration, the parties involved in the management and trusteeship of the SMSF and related parties of the trustees and members.
65. In gaining this preliminary understanding of the SMSF, the auditor reviews the fund's current governing rules to verify whether:
- (a) The fund's governing rules were properly executed.
 - (b) The SMSF has current and appropriately empowered trustees.
 - (c) The SMSF was established with either a corporate trustee or individual trustees under the pension powers.
 - (d) The fund's governing rules complies with or has a mechanism to comply with the SISA and SISR and changes thereto.
 - (e) The powers to accept contributions and pay benefits, in the form permitted by the SISA and SISR, are included.

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

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

The Audit Plan

67. ASA 300 requires the auditor to develop and document the audit plan to record the key decisions and the nature, timing and extent of risk assessment procedures to be undertaken. The form and extent of the audit plan depends on the complexity of the SMSF and the circumstances of the specific audit engagement. The audit plan documents the procedures proposed to be undertaken at the assertion level and evidences work performed to facilitate proper review, supervision of the audit team and any external quality review.

⁴⁶ ASA 300 provides guidance on establishing the audit strategy for smaller entities.

68. The audit plan is dynamic and is required to be updated if necessary during the course of the audit. Audit evidence obtained may trigger a revision of the initial risk assessment and a need for further audit procedures, which is documented accordingly.
69. Often, the audit plan for a SMSF takes the form of a template which assists in maintaining quality control for the engagement as required by ASA 220. However, standardised templates need to be tailored specifically to reflect the requirements of the SISA and SISR, the particular circumstances and nature of the SMSF and the audit evidence available.
70. The audit plan encompasses financial audit procedures, such as the illustrative financial audit procedures listed in Appendix 4 of this Guidance Statement, as well as compliance procedures.⁴⁷

Risk Assessment Procedures

71. The auditor obtains a sufficient understanding of the SMSF and its environment, including its internal control, to identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, and the risk of non-compliance with the specified requirements of the SISA and SISR, in order to design and perform further audit procedures. The risk assessment for the financial audit includes identifying and assessing risks at the financial report level and at the assertion level for classes of transactions, account balances and disclosures, as required by ASA 330.
72. Under ASA 315, the auditor is required to examine the internal controls of the SMSF and document the auditor's understanding of the control environment. ASAE 3100 requires the auditor to document the key elements of the compliance framework, such as procedures for identifying, assessing and reporting compliance incidents and breaches. Given the nature of a SMSF, it is reasonable that there are limited reliable internal controls for the auditor to rely on. Even if the auditor considers that a fully substantive audit approach is appropriate, the auditor is still expected to document their consideration of the internal control environment and the basis for their decision not to rely on controls.
73. Under ASA 250, the auditor is required to consider whether the SMSF has breached the SISA or SISR previously and whether there is any outstanding correspondence or unresolved issues with the ATO. Any such matters identified will impact on the risk assessment and the auditor's assessment of the compliance framework.
74. SMSFs are small entities, with a close and related membership where all trustees and directors of the corporate trustee are equally responsible for managing the fund and making decisions. There would be little or no opportunity for implementing segregation of duties between trustees. Consequently, the auditor may assess the SMSF's internal control environment and compliance framework as ineffective, in which case the auditor will be unable to rely on the effectiveness of the internal controls to reduce substantive testing. As a result, the auditor may design and perform further audit procedures which are primarily or entirely substantive procedures. If the administration of the SMSF is outsourced, the auditor looks at the controls prevailing at the administrator.

Materiality

75. ASA 320 requires the auditor to consider performance materiality⁴⁸ when determining the nature, timing and extent of financial audit procedures and ASA 450 requires the auditor to consider materiality when evaluating the effect of misstatements identified during the audit. Similarly, under ASAE 3100, the auditor considers materiality when planning and performing the compliance engagement and in assessing any compliance breaches identified. Information

⁴⁷ Auditor guidance and information is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors> including the ATO's electronic SMSF audit tool (eSAT), for use in conducting the compliance engagement.

⁴⁸ Performance materiality refers to the amount or amounts set by the auditor at less than materiality for the financial report as a whole to reduce to an appropriate low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial report as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

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.

76. The auditor's preliminary assessment of materiality is based largely on quantitative factors, whereas when assessing the outcome of audit procedures, including the materiality of misstatements identified in the financial audit or contraventions identified in the compliance engagement, the auditor considers both their amount (quantitative) and nature (qualitative).
77. Materiality differs in nature between a financial audit and a compliance engagement and is discussed separately within both Part A (paragraphs 141 to 144) and Part B (paragraph 268 to 269) respectively of this Guidance Statement.

Audit Evidence

78. The results of the risk assessment procedures enable the auditor to design and perform further audit procedures to respond to the assessed risks for the compliance engagement and financial audit. The auditor determines the nature, timing and extent of audit procedures to be performed, which may be either tests of controls or substantive procedures.
79. ASA 500 and ASAE 3100 require the auditor in the conduct of the financial audit and compliance engagement to obtain sufficient appropriate audit evidence on which to base the auditor's opinion. Sufficiency is the measure of the quantity of evidence, which is affected by the risk of misstatement, the higher the risk the more evidence is likely to be required. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability, the higher the quality the less evidence may be required. The auditor considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence gathering procedure for which there is no alternative. The auditor uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the audit opinion.
80. Audit evidence means all the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based, and includes the information contained in the accounting records underlying the financial report and other information. For a SMSF this includes financial reports, trustees' minutes, investment holding certificates, contracts of sale, bank statements, invoices, receipts, titles, legal advice and correspondence, 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.
81. Audit evidence is generally more reliable when:
- Obtained from an independent source.
 - Obtained directly by the auditor.
 - In documentary form.
 - It comprises of original documents.
 - Evidence received directly by the auditor is substantially more reliable than evidence that has passed through other parties especially considering the limited segregation of duties and internal controls that is usually found in a SMSF.
82. Controls are operating effectively. A SMSF audit rarely involves the authentication of documentation, nor is the auditor trained as, or expected to be, an expert in such authentication. However, ASA 500 and ASAE 3000 require the auditor to consider the reliability of the information to be used as evidence, for example photocopies, facsimiles,

filmed, digitised or other electronic documents which are easily altered, including consideration of controls over their preparation and maintenance where relevant. The auditor remains aware of the potential for fraud in the presentation of audit evidence. If an auditor is aware, or suspects, that any documentation has been altered or differs from expected results, then further audit procedures are applied.

83. In determining whether or not to rely on electronically generated or stored audit evidence, the auditor exercises professional judgement in considering the reliability of that evidence. The auditor considers the requirements of the Auditing Standards particularly ASA 200, ASA 315 and ASA 500, and may consider the guidance contained in paragraphs 78 to 82 above.
84. ASA 500 provides guidance on the substantive audit procedures which the auditor may conduct to collect appropriate evidence, which include:
- Inspection of records or documents.
 - Inspection of tangible assets.
 - Observation.
 - Enquiry.
 - Confirmation.
 - Recalculation.
 - Reperformance.
 - Analytical review.
85. ASA 530 *Audit Sampling and Other Means of Testing* requires the auditor to determine the appropriate means for selecting items for testing. Due to the specific nature of SMSFs and limited internal control environment, the auditor would ordinarily rely on a highly substantive method of testing. This may involve examining the entire population of items that make up a class of transactions or account balance, when the population constitutes a small number of large value items or when there is a significant level of risk and other audit procedures do not provide sufficient appropriate audit evidence.

Inspection of Records or Documents

86. Inspection of records or documents consists of examining records or documents, whether internal or external, in paper form, electronic form, or other media. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production.
87. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a share or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value and further audit evidence would be sought. In addition, inspecting an executed contract may provide audit evidence relevant to the SMSF's application of accounting policies, such as revenue recognition.

Inspection of Tangible Assets

88. Inspection of tangible assets consists of physical examination of the assets. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the SMSF's rights and obligations or the valuation of the assets.

Observation

89. Observation consists of watching a process or procedure being performed by others. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place and by the fact that the act of being observed may affect how the process or procedure is performed.

Enquiry

90. Enquiry consists of seeking financial or non-financial information from knowledgeable persons, either within the SMSF or outside the SMSF. Enquiry is an audit procedure that is used extensively throughout the audit and often is complementary to performing other audit procedures. Enquiries may range from formal written enquiries to informal oral enquiries. Evaluating responses to enquiries is an integral part of the enquiry process.
91. Responses received to enquiries may provide the auditor with information not previously possessed or with corroborative audit evidence supporting the audit opinion. Alternatively, responses to enquiries may provide information that differs significantly from other information that the auditor has obtained. In all cases, the auditor evaluates the responses received to enquiries to assess whether there is a need to modify or perform additional audit procedures to support the audit opinion.
92. Enquiry alone ordinarily does not provide sufficient audit evidence to detect a material misstatement at the assertion level, nor sufficient evidence of the operating effectiveness of controls, therefore the auditor performs further audit procedures to obtain sufficient appropriate audit evidence.
93. The auditor obtains written representations from the trustees to confirm responses to oral enquiries on material matters when other sufficient appropriate audit evidence cannot reasonably be expected to exist or when the other audit evidence obtained is of a lower quality.⁴⁹

Confirmation

94. Confirmation, which is a specific type of enquiry, is the process of obtaining a representation of an existing condition or information directly from a third party. For example, the auditor may seek direct confirmation of cash balances with the SMSF's bank.⁵⁰ Confirmations are frequently used in relation to account balances and their components.

Recalculation

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

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

⁴⁹ See ASA 580 for further requirements and explanatory guidance on written representations.

⁵⁰ See ASA 505 for further requirements and explanatory guidance on confirmations.

Analytical Procedures

97. Under ASA 520, the auditor is required to apply analytical procedures as risk assessment procedures to obtain an understanding of the SMSF and its environment and in the overall review at the end of the audit.
98. Analytical review procedures may be utilised to compare and contrast how the SMSF has performed over two or more consecutive reporting periods. Common analytical procedures include comparing balances, calculating ratios and trend analysis. Major variations, inconsistencies or other deviations may warrant further investigation particularly where the difference is not easily understood, not explained sufficiently by the trustees or deviates from predicted amounts.
99. Ordinarily, an auditor reviews the movement in the member balances from one period to another in the preliminary planning phase of the audit. This process identifies the movement in the balance from contributions and investment earnings as well as any reduction in balances due to benefit payments or expenses such as fees, charges or insurance premiums deducted. The auditor uses analytical review to assess whether the member balances are reasonable given the overall circumstances of the SMSF.

Audit Documentation

100. ASA 230 and ASAE 3100 require the auditor to prepare, on a timely basis, audit documentation that is sufficient and appropriate to provide:
- (a) a basis for the auditor's report; and
 - (b) evidence that the audit was performed in accordance with Auditing Standards, applicable Standards on Assurance Engagements and applicable legal and regulatory requirements.
101. Preparing sufficient appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit 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.
102. In assessing the extent of documentation, the auditor considers what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand:
- (a) the nature, timing, and extent of the audit procedures performed to comply with Auditing Standards, applicable Standards on Assurance Engagements and applicable legal and regulatory requirements;
 - (b) the results of the audit procedures and the audit evidence obtained; and
 - (c) significant matters arising during the audit and the conclusions reached thereon.
103. The form, content and extent of audit documentation depend on factors such as:
- The nature of the audit procedures to be performed.
 - The identified risks of material misstatement.
 - The extent of judgement required in performing the work and evaluating the results.
 - The significance of the audit evidence obtained.
 - The nature and extent of exceptions identified.

- The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
- The audit methodology and tools used.

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

Nature of Documentation

104. Audit documentation may be recorded on paper, electronically or on other media. It includes, for example, audit programs, analyses, records of audit testing and results of that testing, issues memoranda, summaries of significant matters, letters of confirmation and representation, checklists, and correspondence (including email) concerning significant matters. Abstracts or copies of the SMSF's records, for example, significant and specific contracts and agreements, may be included as part of audit documentation if considered appropriate. Checklists and audit work programs without supporting audit evidence is not considered to be appropriate audit evidence.
105. Oral explanations to the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation. It is essential for the auditor to collate and retain an audit file containing the audit documentation. Even though SMSF audits are not conducted under the *Corporations Act 2001*, the retention period for audit working papers is generally accepted to be at least seven years⁵¹ after the date the audit report is signed.
106. ASA 230 requires the auditor in documenting the nature, timing and extent of audit procedures to record by whom and when the audit work was performed and, if applicable, who reviewed the audit work and the extent of the review.
107. The auditor completes the assembly of the final audit file on a timely basis after the date of the auditor's report. This facilitates justification and verification that appropriate audit procedures were performed in the audit. Quality reviews, internal and external, are able to be performed more quickly and efficiently if a file is constructed in an orderly and logical manner.
108. Under ASA 230, the auditor is required to adopt appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of audit documentation.

Significant Matters

109. The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation. The preparation of such a summary may assist the auditor's consideration of the significant matters. In addition, ASIC's competency standards⁵² require the auditor to prepare a summary of findings relating to both compliance matters and matters relating to the financial report for each SMSF audit.
110. Judging the significance of a matter requires an objective analysis of the facts and circumstances of the situation. Significant matters include:
- Matters that give rise to significant risks (as defined in ASA 315).

⁵¹ See section 307B of the *Corporations Act 2001*.

⁵² See ASIC Class Order 12/1687 paragraph 48.

- Results of audit procedures indicating that the financial information could be materially misstated; or a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
 - Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
 - Findings that could result in a modification to the auditor's report.
111. If the auditor identifies information that contradicts or is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor documents how the contradiction or inconsistency has been addressed in forming the auditor's final opinion.

Representations

112. Under ASA 580 and ASAE 3100, the auditor seeks written representations from the trustees regarding financial and compliance matters. These written representations are generally in the form of a representation letter which may confirm both verbal representations made during the course of the audit as well as other matters requiring written confirmation.
113. In instances where the auditor's contact with the trustees is limited and may only be at the conclusion of the engagement, the auditor considers obtaining certain representations from the trustees at the planning stage of the engagement. For example representations over eligibility of trustees, safe-guarding of assets and fraud.
114. 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 is immaterial, both individually and in aggregate, to the financial report.
115. The auditor may also seek representations under ASAE 3100, with respect to the compliance engagement, that the trustees:
- Confirm specified matters material to the compliance engagement.
 - Have conducted the affairs of the SMSF in compliance with the SISA, SISR and other relevant legislation throughout the period.
116. Upon receipt of a written representation, the auditor evaluates the representation for reasonableness against other audit evidence collected and the knowledge of the individual making the representation and, where possible, obtains corroborative evidence.
117. Representations by the trustees cannot replace other evidence the auditor could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the financial report or evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the audit, even if a representation from the responsible party has been received on the matter. In such circumstances, ASA 705 and ASAE 3100 require the auditor to express a qualified opinion or a disclaimer of opinion.

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

Service Organisations

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

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

These management services may take various forms including WRAP⁵³ accounts, individually managed portfolio services, individual mandates or platform investments. Further guidance is provided in GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.

120. The use of a service organisation by a SMSF may render the audit evidence required less readily accessible to the auditor if the service organisation provides some of the record keeping or compliance functions of the SMSF.
121. Nevertheless, location of audit evidence at the service organisation does not alter the overall scope and objective of the financial audit and compliance engagement of the SMSF. Therefore, it remains the responsibility of the auditor to obtain sufficient appropriate audit evidence to support the auditor's financial audit and compliance assurance opinions. The requirements of the AUASB Standards relating to obtaining sufficient appropriate evidence on which to form an opinion are the same as would apply if the records and supporting documentation were maintained by the SMSF.
122. The use of a service organisation may provide the auditor with the opportunity to reduce substantive testing for balances and transactions maintained by the service organisation, if reliance can be placed on the service organisation's controls. ASA 402 establishes requirements and provides guidance regarding the use of controls reports from service organisations as evidence for a financial audit where a report is prepared by the service organisation under ASAE 3402 (including GS 007). ASIC Class Orders *Investor Directed Portfolio Services Provided Through a Registered Managed Investment Scheme* (CO 13/762) and *Investor Directed Portfolio Services* (CO 13/763) provide further guidance where the services provided to the SMSF are investor directed portfolio services. In addition, GS 007 provides further guidance where the services provided to the SMSF are investment management services. Controls reports prepared under ASAE 3402 including GS 007 reports, or CO 13/763, CO 13/762, are not intended to provide any assurance with respect to controls over compliance with SISA or SISR and consequently those reports may not contain any evidence of the operating effectiveness of controls over compliance. Where a custodian is engaged by the fund, the auditor performs additional procedures to confirm that the fund has complied with the relevant SIS requirements.

⁵³ A "WRAP" or "Wrap Service" is an administrative and reporting service whereby investments are consolidated, managed and held by a custodian. WRAPS combine reporting on investments including bank accounts, listed securities, corporate actions and managed funds which are held within the portfolio.

123. Operators of IDPSs⁵⁴ and IDPS-like services are required by CO 13/763⁵⁵ or CO 13/762⁵⁶ to obtain an auditor's report providing:
- (a) an opinion as to whether the internal controls and other procedures of the relevant IDPS or IDPS-like operator and other persons acting on behalf of the relevant operator were suitably designed and operated effectively in all material respects to ensure that the annual investor statements, quarterly reports and any information that is made accessible electronically, are not materially misstated; and
 - (b) an opinion as to whether the aggregate of assets, liabilities, revenue and expenses in the annual investor statement for the relevant IDPS or IDPS-like financial year have been properly reconciled in all material respects to the corresponding amounts shown in the reports prepared by the custodian which have been independently audited; and
 - (c) a statement as to whether or not the auditor has any reason to believe that any annual investor statements, quarterly reports or information accessible electronically is materially misstated.

Reports provided under these class orders may provide sufficient appropriate audit evidence for a user auditor. If additional evidence is required by the user auditor, a service auditor's report on controls or on financial information may be requested.

Using the Work of a Service Auditor

124. In relying on the work of a service organisation's auditor under ASA 402, the auditor considers the professional competence of the service auditor in the context of the specific assignment and assesses whether the work of the service auditor is adequate for the SMSF auditor's purposes.
125. In assessing professional competence of the service auditor, the auditor may gain some comfort from the other auditor having membership of a professional accounting body or affiliation with a reputable accounting firm.
126. With respect to the appropriateness of the service auditor's work, the auditor needs to consider whether:
- (a) controls, balances, transactions or compliance with requirements relevant to the SMSF have been audited;
 - (b) an audit opinion, providing reasonable assurance, or a review conclusion, providing limited assurance, has been provided; and
 - (c) the service auditor's report contains any modifications which may impact the audit of the SMSF.

Using the Work of an Expert

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

⁵⁴ "IDPS" means an investor directed portfolio service, consisting of a number of functions including a custody, settlement and reporting system and service. The clients of the service have the sole discretion to decide what assets will be acquired or disposed of. The service is provided in such a way that clients are led to expect, and are likely to receive, benefits in the form of access to investments that the client could not otherwise access directly or cost reductions by using assets contributed by the client or derived directly or indirectly from assets contributed by the client with assets contributed by other clients or derived directly or indirectly from assets contributed by other clients.

⁵⁵ See ASIC Class Order 13/763 *Investor Directed Portfolio Services*.

⁵⁶ See ASIC Class Order 13/762 *Investor Directed Portfolio-like Services provided through a registered managed investment Scheme*.

Management's Expert provides guidance on using the work of a management's expert (an expert engaged by, or on behalf of, the trustees).

128. When using the work of a management's expert, ASA 500 paragraph 8 and ASAE 3100 require the auditor to obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the audit. In doing so, the auditor evaluates:
- (a) the competence, capabilities and objectivity of the expert;
 - (b) whether the scope of the expert's work is adequate for the purposes of the audit, including the reasonableness of the assumptions, method and source data used by the expert; and
 - (c) the appropriateness of the expert's work as audit evidence, including the reasonableness and significance of the expert's findings in relation to the audit of the SMSF.

Using the Work of a Management's Expert

129. Actuaries are experts generally appointed by the trustees (a management's expert) to provide actuarial valuations and certificates required by the SISA, SISR or the ITAA. The auditor applies the requirements of ASA 500 paragraph 8 and ASAE 3100 and refers to Guidance Statement GS 005 for guidance on using the actuary's work as audit evidence.
130. The trustees are required to obtain an actuarial certificate for funds with members in both pension and accumulation phases, where the assets are un-segregated, covering the proportion of income which is tax exempt, obtained annually.⁵⁷ Actuarial certificates will also be required if the fund pays a pension that is not prescribed under the SISR. Actuarial certificates are not required for accumulation funds paying pensions with segregated assets if the assets are segregated for the entire year of income.
131. Where the auditor relies on an actuarial certificate produced by a management's expert as audit evidence, the requirements of ASA 500 and the guidance in GS 005 requires the auditor to:
- (a) Assess the competence, capabilities and objectivity of the actuary;
 - (b) Obtain an understanding of the work of the actuary; and
 - (c) Evaluate the appropriateness and adequacy of the work of the actuary including:
 - (i) Assessing the relevance and reasonableness of the actuaries findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
 - (ii) If the expert's work involves the use of significant assumptions and methods, consideration of the relevance and reasonableness of those assumptions and methods; and
 - (iii) If the expert's work involves significant use of source data, consideration of the relevance, completeness and accuracy of that source data.
132. Actuarial reports are a means of reviewing a SMSF's progress in achieving its objectives of providing the member's future benefits and in determining the share of the fund's income that may be exempt from tax as a result of paying pensions to members.

⁵⁷ See Section 295-390 of the ITAA 1997.

PART A – FINANCIAL AUDIT

133. The ATO's approved form auditor's report Part A: *Financial report* requires the auditor to conduct the audit in accordance with Auditing Standards to form an opinion regarding the fair presentation of the financial report of the SMSF for the reporting period, in accordance with stated accounting policies, which are consistent with the financial reporting requirements of the SMSF's governing rules, compliant with the SISA and SISR and are appropriate to meet the needs of members.
134. ASA 200 requires the auditor to express an opinion on whether the financial report is prepared, in all material respects, in accordance with an applicable financial reporting framework. As SMSFs generally prepare special purpose financial reports they are not required to formally adopt Australian Accounting Standards and the trustees determine the applicable financial reporting framework which they will apply to the SMSF's financial report.⁵⁸ The basis for preparation of the report is disclosed in the accounting policy notes in the financial report.

Financial Reports

135. An accumulation fund, or defined contribution fund, is a fund which is not a defined benefits fund.⁵⁹ 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. The requirements for financial reports for a SMSF are set out in the SISA and SISR. In summary, for an accumulation fund they comprise:
- (i) a statement of financial position; and
 - (ii) an operating statement.

These are special purpose financial reports, under the Accounting Standards framework. 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.⁶⁰ This Guidance Statement does not deal with the audit of these funds.

137. Typical account categories in an SMSFs financial report include:
- Assets:
 - Cash and cash equivalents.
 - Investments.
 - Receivables.
 - Prepayments.
 - Liabilities:
 - Tax liabilities (current and deferred).
 - Accounts payable and accruals.
 - Borrowings, including limited recourse borrowing arrangements.

⁵⁸ 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.

⁵⁹ Definition from regulation 1.03(1) of the SISR.

⁶⁰ See Regulations 8.02 and 8.03 of the SISR.

- Accrued benefits .
 - Vested benefits (disclosed in the notes to the financial statements).
- Reserves.
- Revenue:
 - Investment revenue, including changes in net market values.
 - Proceeds from insurance policies.
 - Contributions and transfers in.
- Expenses:
 - General administration expenses.
 - Tax expenses.
 - Benefits paid.

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

Assertions and Audit Evidence

138. In representing that the financial report gives a fair presentation of the SMSF's position, results and disclosure during the reporting period and is prepared in accordance with the applicable financial reporting framework, the trustees make assertions implicitly or explicitly (positive confirmations) regarding the recognition, measurement, presentation and disclosure of the various elements of a financial report and related disclosures.
139. In accordance with ASA 315, the auditor uses assertions for classes of transactions, account balances, and presentation and disclosures in sufficient detail to form a basis for the assessment of risks of material misstatement and the design and performance of further audit procedures.
140. Assertions used by the auditor fall into the following categories:
- (a) Assertions about classes of transactions and events reflected in the SMSF's operating statement for the period under audit:
 - (i) *Occurrence* - transactions and events that have been recorded have occurred and pertain to the SMSF.
 - (ii) *Completeness* - transactions and events that *should* have been recorded have been recorded.
 - (iii) *Accuracy* - amounts and other data relating to recorded transactions and events have been recorded appropriately.
 - (iv) *Cut-off* - transactions and events have been recorded in the correct accounting period.
 - (v) *Classification* - transactions and events have been recorded in the proper accounts.
 - (b) Assertions about SMSF account balances reflected in the SMSF's statement of financial position at the period end:

- (i) *Existence* - assets, liabilities, and member entitlements exist.
 - (ii) *Rights and obligations (ownership)* - the SMSF holds or controls the rights to assets, either directly or beneficially, and liabilities are the obligations of the SMSF.
 - (iii) *Completeness* - assets, liabilities and member entitlements that *should* have been recorded have been recorded.
 - (iv) *Valuation and allocation* - assets, liabilities and member entitlements are included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
- (c) Assertions about presentation and disclosure within the SMSFs special purpose financial reports:
- (i) *Occurrence and rights and obligations* - disclosed events, transactions, and other matters have occurred and pertain to the SMSF.
 - (ii) *Completeness* - disclosures that *should* have been included in the financial report have been included.
 - (iii) *Classification and understandability* - financial information is presented and described appropriately, and disclosures are expressed clearly.
 - (iv) *Accuracy and valuation* - financial and other information is disclosed fairly and at appropriate amounts.

Materiality

141. ASA 320 requires the auditor to make a preliminary assessment of materiality to establish an appropriate quantitative materiality level to plan risk assessment procedures, further audit procedures, selection strategies and other audit procedures for the financial audit. Ordinarily, a quantitative materiality level is calculated by applying a percentage, based on the auditor's professional judgement, to the selected benchmark or benchmarks, which may include:
- Total gross assets.
 - Net assets.
 - Total member entitlements.
 - Total gross income.
 - Total Expenses
142. The auditor uses the preliminary quantitative materiality level and the assessed risk of material misstatement at both the financial report level and at the assertion level, for classes of transactions and account balances, to determine the nature, timing and extent of audit procedures for the financial audit.
143. In assessing the materiality of any misstatements identified during the audit and their impact on the auditor's report, the auditor considers both quantitative and qualitative factors. Qualitative factors which the auditor considers include:
- The significance of a misstatement to the SMSF.
 - The pervasiveness of a misstatement.
 - The effect of misstatement on the financial report as a whole.

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

Opening Balances

145. Upon appointment to a new engagement, ASA 510 requires the auditor to obtain sufficient appropriate audit evidence that:
- (a) the opening balances (account balances which exist at the beginning of the period) do not contain misstatements that materially affect the current period's financial report;
 - (b) the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated (prior year audited figures are restated if a prior year error is material); and
 - (c) appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial report or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.
146. When the prior period's financial report was audited by another auditor, the current auditor may be able to obtain sufficient audit evidence by reviewing the predecessor auditor's working papers. In these circumstances, the current auditor considers the professional competence and independence of the predecessor auditor. If the prior period's auditor's opinion was modified, under ASA 705, the auditor pays particular attention in the current period to the matter which resulted in the prior period modification.
147. Prior to communicating with the predecessor auditor, under ASA 220, the current auditor is required to consider the relevant ethical requirements.
148. 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.
149. Ordinarily, some audit evidence may be obtained as part of the current period's audit procedures for the opening balances of current assets and liabilities. Performing audit procedures on the valuation of the opening bank account and other material items may provide sufficient appropriate audit evidence. For investments and material balances, the auditor examines the accounting records and other information underlying the investments which may contain the opening balances of such investments. In certain cases, the auditor may be able to obtain confirmation of opening balances with third parties such as share registries or fund managers. When the auditor cannot obtain this information, the auditor may need to carry out additional audit procedures to verify the opening balances.
150. If audit procedures do not result in sufficient appropriate audit evidence concerning opening balances, ASA 510 requires that the auditor's report is modified. Further guidance on modifications to the auditor's report is provided in paragraphs 250 to 257.

Cash and Cash Equivalents

151. Cash and cash equivalents include bank accounts, cash management trusts and other cash transactional facilities held with banks, fund managers, credit unions and other approved financial or deposit taking institutions. These accounts provide either a paper based record or electronic record of transactions and may have cheque, direct debit or internet banking facilities.
152. The audit assertions for auditing a SMSF's cash and cash equivalents are:

- Existence – obtaining evidence that the cash exists.
 - Rights and obligations (ownership) – obtaining evidence that the cash is owned directly or beneficially by the SMSF.
 - Completeness – obtaining evidence that all cash owned by the SMSF is recorded.
 - Valuation and allocation – obtaining evidence that the cash is valued at face value in accordance with the accounting policies.
153. Cash and cash equivalents are a SMSF's most liquid assets and so may carry a high fraud risk. The auditor remains alert to fraud and the risk of fraud with respect to the SMSF's bank accounts. The auditor assesses the internal controls surrounding the authorisation of payments and receipts to ascertain whether the cash of the SMSF is safeguarded adequately. The auditor remains sceptical of transactions in the bank accounts that may relate to early access or fraud perpetrated not only by the members or trustees but by those related parties that may have access to fund's bank accounts.
154. If the banking operations are significant to the audit, the auditor sends bank confirmation requests⁶¹ to the SMSF's banks. A bank confirmation is a request to a bank to provide independent confirmation for audit purposes of such information as the SMSF's account balances, securities, treasury management instruments, documents and other related information held by the bank on behalf of the SMSF. The confirmation will also seek to identify any deliberate or inadvertent borrowings with the bank.
155. Some SMSFs may utilise a cash account established with their broker, investment account or other investment platform (for example, IDPS) as part of their securities trading activity. This account may facilitate trading, settlement and receipt of dividends and interest. The auditor establishes who has access to this account and who may authorise transactions to ensure that only authorised investment trading takes place.

Investments

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

⁶¹ For an example of a Bank Audit Confirmation, refer to GS 016.

- Collectables and personal use assets⁶² such as artwork, antiques, wine and recreational boats.
157. Investments may be domestic, international or a combination of both and may be held by a custodian, the individual trustees or a corporate trustee.
158. The audit assertions for auditing a SMSF's investments are:
- Existence – obtaining evidence that the investment exists.
 - Rights and obligations (ownership) – obtaining evidence that the investments are owned directly or beneficially by the SMSF.
 - Completeness – obtaining evidence that investments owned by the SMSF are recorded in the accounts.
 - Valuation and allocation – obtaining evidence that investments are valued in accordance with the accounting policies adopted, allocated to the correct account and disclosed fairly in accordance with the stated policies.
159. Audit risks to be considered in relation to auditing investments may include, but are not limited to:
- Over or understatement of investment values, including compliance with the SISR in valuing investments at market value.
 - Investments not beneficially owned by the SMSF.
160. The audit procedures relating to investments will vary depending on the administration and management arrangements adopted by the trustees, the type of investments held and the trustee structure that holds the assets. The auditor exercises professional judgement in determining the appropriate auditing procedures.

Existence and Ownership

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

Completeness

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

Valuation and Allocation of Assets

163. As the SMSF's financial report is generally a special purpose financial report, the trustees choose the financial reporting framework under which the SMSF reports. Trustees exercise

⁶² Collectables and personal use assets are defined in Regulation 13.18AA of the SISR.

their discretion when determining the most appropriate market value⁶³ to be applied to each investment of the SMSF. Under ASA 800, the auditor's responsibility is to form an opinion regarding fair presentation in accordance with the identified financial reporting framework or identified basis of accounting. Under ASA 540, the auditor is required to obtain sufficient appropriate audit evidence that fair value measurements and disclosures are in accordance with the SMSF's applicable financial reporting framework. The auditor evaluates whether the valuation method employed is consistent with the financial reporting framework adopted and the policies described in the accounting policy notes, whether the method of measurement is appropriate in the circumstances and that the method adopted has been applied consistently.

164. When preparing year end accounts, SMSF assets are required to be valued at market value.⁶⁴ Market value is defined in the SISA⁶⁵ and the ATO's guidance on the process to establish a market value is contained in its *Valuation guidelines for self-managed superannuation funds*.
165. The auditor obtains an understanding of the trustees' rationale for selecting the basis of determining market value and exercises professional judgement in assessing whether the basis is appropriate given the nature of the asset and the financial and investment markets in which the SMSF operates. The auditor obtains sufficient appropriate audit evidence to support the trustee's rationale for determining the market value of each asset class.
166. It is not the role of the auditor to value the assets. The role of the auditor is to check that assets have been reported at market value, and assess and document whether the basis of establishing market value is reasonable and the valuation is accurate in light of the SISA, SISR, and ATO guidelines. The auditor assesses the risks of material misstatement of the asset values, designs and performs audit procedures and documents conclusions in response to the assessed risks.
167. SMSFs may invest directly in unit trusts, listed securities, PSTs or other investment products for which market prices are published and readily available. The auditor may verify that the unit price used is consistent with reference to cum-distribution or ex-distribution price and any accrual of income. For these investments, the product or unit is recorded as an asset in the records of the SMSF rather than the underlying investments.
168. Non-monetary items, such as property and collectables, require alternative methods to arrive at market value. The auditor makes reference to the ATO's *Valuation guidelines for self-managed superannuation funds* in order to establish that the basis for determining market value is appropriate to meet the requirements of the ATO and the SISR.
169. Where the auditor is unable to form an opinion in assessing whether the valuation is in accordance with the financial reporting framework adopted, due to uncertainty, and no expert valuation can be obtained, the auditor considers modification of the auditor's report, taking into account materiality and the risk of material misstatement. The auditor is required to report to the ATO in an Audit Contravention Report where there is a contravention of regulation 8.02B of the SISR.
170. To protect the value of their assets, SMSFs may obtain insurance cover over the assets. In auditing ownership and valuation of assets, the auditor obtains evidence that:
 - (a) the insurance exists;
 - (b) the SMSF is both the owner of the asset and the beneficiary of the policy;
 - (c) the premium is paid by the SMSF; and
 - (d) the cover is effected and current.

⁶³ See Regulation 8.02B of the SISR.

⁶⁴ See Regulation 8.02B of the SISR.

⁶⁵ See Subsection 10(1) of the SISA.

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

IDPS and Other Service Organisations

172. Whilst the auditor of a SMSF may be able to rely on the annual investor statement and auditor's report provided in relation to an IDPS⁶⁶ or a service organisations report under ASAE 3402 and GS 007 in relation to an investment management service organisation from the service organisation as audit evidence of the operating effectiveness of controls over the services outsourced, the auditor is still required to conduct substantive procedures for all material balances and transactions under ASA 330 to support their financial audit opinion. It may be impractical or impossible to gain access to the service organisation's records to conduct substantive testing, in which case, the auditor may rely on the IDPS report in conjunction with:
- Analytical review of the balances and transactions of the SMSF reported by the service organisation, such as comparison of investment returns with market indices or comparison of expected contribution rates and benefit payments with changes in assets managed by the service organisation.
 - Reconciliation of balances and transactions reported by the service organisation with records maintained by the SMSF.
 - Confirmation of balances or transactions recorded on behalf of the SMSF from the service organisation.
173. The nature of the audit procedures required to obtain sufficient appropriate audit evidence regarding a SMSF's investments which are managed by or in the custody of an IDPS or another service organisation will depend on the extent to which the records of the SMSF are maintained by the IDPS or service organisation.
174. By comparison, for investments in listed securities, units or products for which prices are readily or publicly available, such as managed funds, Pooled Superannuation Trusts (PSTs) and listed property trusts, registered in the name of the trustee on behalf of the SMSF, for which the SMSF maintains its own accounting records, the auditor is ordinarily able to confirm the number of units held in the end of period statements and taxation summaries or directly with the registry, coupled with substantive testing of the SMSF's records for investments and redemptions. Valuation may be tested against published unit prices using the number of units held.
175. For investments for which recording of material balances or transactions is controlled by the service organisation but accounting records are still maintained by the SMSF and the SMSF has access to the source documentation, such as when assets are held in custody, the end of period statements and taxation summaries may be insufficient evidence alone but may be coupled with evidence of the operating effectiveness of controls within the IDPS or service organisation, confirmation of balances with the service organisation and analytical review of the SMSF's investment activity.
176. For a standalone investment mandate where the IDPS or service organisation maintains the SMSF's accounting records, including source documentation, makes investment decisions based on the mandate and holds the investments on behalf of the SMSF, the SMSF may maintain only limited independent accounting records, source documentation or banking records, in which case the SMSF relies on the service organisation's reports as a basis for preparation of their financial report. Audit evidence in these circumstances may include an auditor's report on controls at the IDPS or service organisation and substantive testing of

⁶⁶ See paragraph 123 of this Guidance Statement for a description of IDPS reports.

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.

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

Receivables and Prepayments

178. Where the SMSF accounts on an accruals basis, receivables may include contributions, interest or trust distributions receivable and current tax assets. Receivables are tested primarily for existence, valuation and allocation by confirming the receipt in the subsequent period.
179. If the SMSF accounts on an accruals basis and invests in managed funds that pay distributions post balance date, the auditor verifies that the SMSF has accrued these distributions of income correctly and consistently and that the investment value of the underlying asset has been adjusted accordingly.
180. Prepayments are tested against cash payments and particular attention paid to transactions with related parties to ensure they relate to a genuine expense.

Liabilities

181. Liabilities of a SMSF, other than accrued benefits which are discussed separately, may include:
- Goods and Services Tax (GST) payable, if the SMSF is registered for GST.
 - Income tax liabilities, current and deferred.
 - Accruals for accounting and audit fees.
 - Liabilities relating to limited recourse borrowing arrangements.
 - Any other accrued expense the trustees have provided for or incurred.
 - Benefits payable, including benefits arising from insurance claims.
182. Bank overdrafts, other borrowings and related interest payable. The audit assertions with respect to a SMSF's liabilities are:
- Existence – the liabilities exist.
 - Rights and obligations (ownership) – the liabilities are obligations of the SMSF.
 - Completeness – all liabilities of the SMSF have been recorded.
 - Valuation and allocation – liabilities are recorded at appropriate amounts and allocated to the appropriate account.
183. Generally, SMSFs are not allowed to borrow. Permitted exceptions are temporary borrowings to fund the payment of member benefits, payment of the superannuation contributions

surcharge,⁶⁷ settlement of securities transactions where the borrowing was unforeseen or borrowings under limited recourse borrowing arrangements. Sections 67, 67A and 67B of the SISA detail the additional requirements that are required to be met before the borrowing is accepted.

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

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

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

Accrued Benefits

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

187. Accrued benefits of a SMSF may arise from:

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

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

- Existence – the accrued benefits are entitlements of members.
- Rights and obligations (ownership) – the accrued benefits are obligations of the SMSF.
- Completeness – 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.

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

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

⁶⁷ 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.

Vested Benefits

190. Vested benefits are those benefits to which the member is currently entitled irrespective of the member's continued membership of the SMSF, on-going employment with a particular employer or maintenance of other conditions. Although vested benefits are an unconditional benefit of the member within the SMSF, those benefits can be accessed only upon satisfying an appropriate condition of release, such as retirement, death, rollover, reaching age 65 or reaching at least preservation age⁶⁸ and accessing a transition to retirement income stream. Usually vested benefits are disclosed in the notes to the financial statements.
191. Vested benefits equate to the minimum benefits of the SMSF's members. Minimum benefits include member concessional and non-concessional contributions, mandated contributions (compulsory employer contributions) such as Superannuation Guarantee (SG) contributions or superannuation payments made pursuant to an Award or other employment agreement, amounts rolled over or transferred in as minimum benefits and the earnings thereon. 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.⁶⁹
192. Audit procedures to test for vesting of minimum benefits include examining the fund's governing rules to ensure that the governing rules fully vest the contributions in the member and testing member and employer contributions for the period for inclusion in members' accounts. In addition, the auditor reviews any transfers to reserves to ensure that the minimum benefits are not being reduced.

Reserves

193. A reserve is an amount held within a SMSF that is not allocated specifically to members. Generally, reserves are permitted unless specifically prohibited under a SMSF's governing rules. Typically, reserves are created from contributions not being allocated to a member upon receipt or from excess investment returns.
194. Types of reserves permitted for SMSFs may include, but are not limited to:
- Investment.
 - Contribution.
 - Miscellaneous.
195. Investment reserves are used to smooth returns.
196. Contribution reserves allow funds to manage potential excess contributions where a contribution is received in the month of June.
197. Miscellaneous reserves can be created by the death of the last defined benefit pensioner within the SMSF with the residual sums being transferred to the miscellaneous reserve. They can also be created intentionally for other purposes.
198. Contributions received are required by the SISR to be allocated to members within 28 days of the end of the month in which they are received⁷⁰. If a SMSF receives a contribution during a financial period and that contribution is not allocated to a member in that period, the amount should be classified as an "unallocated contribution"⁷¹ at balance date. The unallocated contributions account is similar in nature to a reserve, but contains only contributions held

⁶⁸ Preservation age is the age at which super benefits can be accessed. Preservation age will rise from 55 to 60 between 2015 and 2024. This will mean that for someone born before 1 July 1960, their preservation age is 55 years, while for someone born after 30 June 1964, their preservation age will be 60.

⁶⁹ See regulation 5.08 of the SISR.

⁷⁰ See Regulation 7.08 of the SISR.

⁷¹ See TD 2013/22 applies from 1 July 2013. ATO ID 2012/16 applied prior to 1 July 2013.

temporarily until they are allocated. Earnings and expenses may not be debited or credited to the unallocated contributions account.

199. Anti-detriment payment (tax saving amount) reserves may be established to pay an additional benefit upon death, equivalent to the tax already paid on contributions for the member. Various methods may be used to calculate the exact amount of the anti-detriment payment and auditors *should* refer to the relevant sections of the ITAA 1997. The reserve may be funded from excess investment returns or allocated from miscellaneous reserves and needs to be established prior to death.
200. Audit considerations for reserves include whether:
- The fund's governing rules permit the making of reserves.
 - The assets of the particular reserve are segregated appropriately from the rest of the SMSF's assets.
 - Amounts transferred in or out of the reserves are appropriate.
 - The fund has a reserve strategy⁷².

Investment and Other Revenue

201. Revenue of a SMSF, other than contributions, may include:
- Dividends.
 - Interest.
 - Rental income.
 - Unit trust distributions.
 - Insurance policy proceeds, rebates and bonuses.
 - Changes in market value – both realised and unrealised.
202. The audit assertions for revenue received by a SMSF are:
- Occurrence – revenue received by the SMSF is real and has occurred.
 - Completeness –revenue received by the SMSF has been recorded.
 - Accuracy –revenue received by the SMSF has been recorded appropriately. Changes in market value are based on appropriate and accurate asset valuations.
 - Cut-off –revenue received by the SMSF has been recorded in the correct period.
 - Classification –revenue received by the SMSF has been allocated correctly, either to the correct members' accounts or to the asset pool and the tax status of that income is appropriate.
203. Audit risks to be considered in relation to auditing revenue may include:
- Revenue is recognised before it is earned.
 - Revenue is not being accounted for in accordance with the SMSF's accounting policies.

⁷² See section 52B(2)(g) of the SISA.

- Misstatement of changes in market value due to under or overstatement of market valuation.

Revenue recognition is ordinarily considered a significant risk for a SMSF.

Contributions and Transfers In

204. Typically, contributions into SMSFs are sourced from either the members or the members' employers. Transfers in are benefits transferred from other superannuation entities. Contributions are classified as either concessional, for which a tax deduction has been claimed by the contributor, or non-concessional, for which no tax deduction has been claimed by the member. Contributions and transfers in to a SMSF may include⁷³:

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

Contributions may be made in cash or *in-specie* (by transferring an asset) or a combination of both if the fund's governing rules permit the SMSF to accept contributions that are made *in-specie*. Where contributions are made via an in-specie asset transfer, the auditor determines whether the requirements of section 66 of the SISA have been met.

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

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

⁷³ See the Self-Managed Superannuation Fund annual return (NAT 71226).

206. Audit risks to be considered in relation to contributions and transfers in may include, but are not limited to:
- Incorrect classification and allocation of concessional and non-concessional contributions.
 - Incorrect tax treatment of contributions.
 - Incorrect cut-off for contributions resulting in failure to recognise that contribution caps have been exceeded.
 - Incorrect allocation of the components of transfers in.
 - Acceptance of contributions in excess of the fund-capped contributions limit.⁷⁴
 - Understatement of market values for in-specie contributions to avoid exceeding the contributions caps.
 - Under or overstatement of market values for in-specie contributions either to provide early access to benefits or to disguise loans to members.
207. Auditors consider the appropriateness of audit evidence to confirm contributions are not materially misstated, such as employer confirmations of contributions paid to the fund or analytically reviewing member PAYG information.

Expenses

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

⁷⁴ Contributions caps are discussed in paragraph 218 of this Guidance Statement.

- Accuracy – all expenses have been recorded appropriately.
 - Cut-off – all expenses have been recorded in the correct period.
 - Classification – all expenses have been allocated to the proper accounts or members to which they relate.
210. Audit risks to be considered in relation to auditing expenses may include:
- Personal expenses of the members or trustees are recorded as expenses of the SMSF.
 - Expenses of the SMSF paid by a member or an employer are not recorded as concessional or non-concessional contributions.
 - Incorrect tax treatment of an expense.
211. Ordinarily, the auditor reviews any payments made to individual trustees or corporate trustees to validate that the payment was *bona fide* and not an early benefit or a payment for services to the SMSF, which are prohibited⁷⁵.

Tax Expense

212. The main areas of focus for an auditor with respect to tax are the tax calculation and allocation of any tax expense or benefit to the members' accounts. The taxation legislation is amended periodically and interpretation of that legislation by the ATO and the courts may change from time to time, consequently, the guidance in this section may become outdated over time and it is the responsibility of the auditor to ensure that they remain up-to-date with the taxation requirements affecting SMSFs. The audit objectives with respect to a SMSF's tax expenses and benefits include:
- Occurrence – Deductions were incurred and imputation credits, carried forward losses and any other offsets are attributable to the SMSF.
 - Completeness – Assessable income, including capital gains, received by the SMSF has been declared.
 - Accuracy – Assessable income, including capital gains, allowable deductions, exempt current pension income, rebates, offsets and eligible credits attributable to the SMSF are calculated and recorded appropriately.
 - Cut-off – Assessable income, including capital gains, allowable deductions, rebates, offsets and eligible credits attributable to the SMSF are declared or claimed in the correct period.
 - Classification – The tax status of contributions is correctly determined. Timing differences have been correctly identified and accounted for.
213. Income tax is payable on investment earnings (net of expenses) including capital gains, with full imputation credits for dividends received from Australian companies and credits for dividend and withholding tax on foreign income to the extent of Australian tax payable on the foreign sourced income. Income tax is also payable on employer contributions and on member contributions where the member has notified the trustees of an intention to claim a personal tax deduction (concessional contributions). Deductions are available for certain payments and expenses.
214. Some SMSFs account for deferred income taxes in accordance with Australian Accounting Standard AASB 112 *Income Taxes*, in which case the auditor assesses the impact of that accounting standard upon the SMSF. Ordinarily, the auditor considers whether the

⁷⁵ See section 17(B) of the SISIA.

recognition of any current or deferred tax liabilities or tax assets is appropriate given likelihood of payment of the liabilities or recovery of the assets based on the age of the members and the circumstances of the SMSF. As most SMSFs operate under a special purpose framework, many elect not to apply AASB 112.

Ordinary Income

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

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

216. Ordinary income does not include:

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

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

Contributions

218. SMSFs are prohibited from accepting a single contribution for a member that exceeds the fund-capped contributions,⁷⁶ limit specified in the SISR,⁷⁷ in a financial year. If the fund has received an amount which is inconsistent with the limit, the trustees must return it to the contributor within 30 days of becoming aware of the inconsistency.⁷⁸ The auditor makes enquiries to satisfy themselves that contributions exceeding the fund cap are returned and excluded from the tax calculations. If a member exceeds their concessional or non-concessional contribution cap, it does not automatically mean that the excess contribution must be returned. The auditor reviews information pertaining to contributions to ascertain whether the excess contribution is returnable under regulation 7.04 of the SISR, or if an ATO release authority is required to release the excess amount.

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

220. Upon the sale of certain small business assets, members may be able to contribute some or all of the sale proceeds to the SMSF and may be eligible to exclude all or part of the contribution

⁷⁶ Fund-capped contributions are defined in regulation 7.04(7) of the SISR.

⁷⁷ See regulation 7.04(3) of the SISR. Legislation surrounding contributions and contribution caps can and does change. It is the auditors' responsibility to ensure that they are auditing according to the relevant and applicable legislation and regulation.

⁷⁸ The ATO's Interpretative Decision, ATO ID 2007/225, states that the trustee is only expected to consider whether contributions individually exceed the contribution caps and the trustee does not need to aggregate contributions by a member for the year in determining whether excess contributions should be returned. Also refer to ATO ID 2009/29 *Superannuation Contributions: return of contribution by SMSF – after 30 day time limit* and ATO ID 2008/90 *Superannuation Contributions: return of fund capped contributions by SMSF*.

from the non-concessional contributions cap. In these circumstances, the auditor confirms the contribution is supported by a *Capital Gains Tax Election Form*⁷⁹.

Non-arm's Length Income

221. Non-arm's length⁸⁰ income of a SMSF, which includes private company dividends (unless arm's length), income from non-arm's length transactions and discretionary trust distributions, is not taxed concessional. The auditor checks that any non-arm's length income has been classified correctly.

Franked Dividends

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

Capital Gains Tax

223. Growth in the value of most SMSF assets, is subject to CGT on their disposal, with assets purchased prior to 30 June 1988 deemed to 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

224. If the SMSF is registered for GST, generally due to owning business real property, and has taxed supplies (income) and input taxed supplies (expenses) the auditor, where material, 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 accounting fees for the preparation of the tax return or BAS or on audit fees.

Deductions

225. Expenses incurred by a SMSF may be deductible by the SMSF under the ITAA subject to the normal principles governing the tax deductibility of expenditure incurred by superannuation funds.⁸¹ The auditor tests the deductions claimed to verify their occurrence, deductibility and that they were incurred by the SMSF and were not personal in nature, or if they were shared, the correct proportion of the expense has been claimed by the SMSF. In general, the following expenses are deductible – administration fees, actuarial costs, accountancy and audit fees, investment management fees and custody fees. Other expenses such as capital allowances (depreciation) may be deductible depending on the circumstances of the SMSF. Depending on the type of insurance policy, the insurance premium may also be deductible, in part or in full. The auditor may also check that capital items have been correctly treated, as items of a strictly capital nature and are not be tax deductible.
226. The auditor verifies that expenses are not claimed if they relate to exempt pension income.⁸²

⁷⁹ See ATO form NAT 71161.

⁸⁰ 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.

⁸¹ 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.

⁸² Guidance and information on how exempt current pension income and relevant deductions (TR 93/17) should be applied for funds with segregated or unsegregated assets is available on the ATO website www.ato.gov.au (search under ECPI).

Actuarial Reports for Un-segregated Assets

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

Benefits Paid

228. Generally, benefits paid by a SMSF are triggered by the member's retirement, turning age 65, death, physical or mental incapacity,⁸³ termination of employment, or reaching preservation age and commencing a transition to retirement⁸⁴ income stream⁸⁵. In the event of divorce, benefits may be split pursuant to a superannuation agreement, consent order or an arbitrated court order.⁸⁶
229. SMSFs may pay benefits by way of a lump sum (in cash or *in specie*⁸⁷), pension or insurance benefit.⁸⁸ 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).
230. The relevant assertions with respect to benefits paid are:
- Occurrence – benefits recorded by the SMSF as paid have been incurred and paid.
 - Completeness – benefits paid or payable, if appropriate, by the SMSF have been recorded.
 - Accuracy – benefits paid by the SMSF have been calculated appropriately. The minimum annual benefits amount has been paid and, for transition-to-retirement income streams only, the payment does not exceed the maximum annual payment amount. The correct amount of Pay-As-You-Go (PAYG) withholding tax, has been withheld, where the benefit is from an untaxed source or the member is under 60.
 - Cut-off – benefits paid by the SMSF have been recorded in the correct period.
 - Classification – benefits paid by the SMSF have been recorded in the proper accounts including the appropriate member's account.
231. Audit risks to be considered in relation to auditing benefits may include, but are not limited to:
- Payment of a benefit to which the member or beneficiary are not entitled, providing early access to benefits.
 - Incorrect calculation of a benefit payment.
 - Payment of a benefit to an incorrect member or beneficiary.

⁸³ This can be permanent or temporary incapacity which stops the member from engaging in gainful employment.

⁸⁴ More information about transition to retirement is available on ATO website www.ato.gov.au (search under transition to retirement).

⁸⁵ Other conditions of release include a terminal medical condition, financial hardship and compassionate grounds.

⁸⁶ 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 234 to 236 for further guidance on benefit splitting.

⁸⁷ Assuming in specie payments are permitted by the fund's governing rules.

⁸⁸ A total and temporary disability benefit (salary continuance/income protection benefit) is generally paid as a regular income payment without reference to an account balance.

- Pension payments not paid in cash
 - Minimum payments not made for all pensions and the maximum payment for a transition-to-retirement income stream is exceeded.
232. For death benefits, the auditor establishes if a binding death benefit nomination exists, and reviews that the specific trust deed requirements have been met following the death of a member.
233. Upon the death of a pensioner, many SMSF pensions are reversionary and continue to pay the pension to the surviving spouse or reversionary beneficiary. The reversionary feature is generally established at commencement of the pension, but some fund's governing rules may permit establishment under a discretionary power in the deed. The auditor, in the case of death of a pensioner with a reversionary benefit, checks that the pension is being paid to the nominated reversionary beneficiary and that the benefit has not been transferred to reserves or paid out as a lump sum.

Divorce and Splitting of Benefits

234. In circumstances where a member's benefit within a SMSF is subject to a property settlement upon divorce or a "splitting arrangement", the auditor reviews the documentation supporting the splitting of the benefit. A settlement is evidenced by one or more of the following documents:
- (a) Superannuation agreement – negotiated between the divorcing parties and certified by two legal practitioners who represent the respective divorcing parties.
 - (b) Consent order – an order of the court frequently negotiated between two legal practitioners who represent the respective divorcing parties and submitted to the court for approval.
 - (c) Arbitrated court order – where the divorcing parties are unable to agree on the settlement terms and the court decides the settlement amount and terms.
 - (d) Notice by a non-member.⁸⁹
 - (e) Notice by a trustee of information regarding an interest subject to a payment split.⁹⁰
 - (f) Payment split notice by a trustee to both member and non-member.⁹¹
 - (g) One of the following notices by the non-member spouse to the trustees to:
 - (i) create a new interest;⁹²
 - (ii) rollover or transfer benefits;⁹³
 - (iii) pay a lump sum where non-member has met a condition for release.⁹⁴
235. Once an order or agreement has been executed properly, the trustees are required to implement the order or agreement. In general, this may mean one of the parties exits the SMSF. Where there is a two member SMSF, the exiting member may take part of the other party's interest as well as their own. The auditor then treats the exit as per a normal member rollover or cashing out of a benefit. The auditor is careful to ensure that the capital gains issues are addressed, and that the tax components and preservation status of the superannuation payments are

⁸⁹ See notice under regulation 72 of the *Family Law (Superannuation) Regulations 2001*.

⁹⁰ See notice under regulation 2.36C of the SISR.

⁹¹ See notice under regulation 7A.03 of the SISR.

⁹² See notice under regulation 7A.03C or 7A.05 of the SISR.

⁹³ See notice under regulation 7A.03D or 7A.06 of the SISR.

⁹⁴ See notice under regulations 7A.03E or 7A.07 of the SISR.

maintained. If a member exits the SMSF, the remaining trustee needs to ensure compliance with section 17A by:

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

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

Other Audit Considerations

Going Concern

237. The SMSF's financial report is prepared on the basis that the SMSF is a going concern. Under ASA 570, the auditor is required to consider and remain alert to whether there are any events, conditions and related business risks which may cast significant doubt on the SMSF's ability to continue as a going concern.⁹⁵ 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.
238. To view a SMSF as a going concern, the SMSF is expected to be able to pay its debts as and when they fall due and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. For a SMSF, the primary concern is whether the SMSF will be able to pay benefits and entitlements to members, in addition to tax, audit and other expenses, payable over the coming year. If the SMSF is in an unsatisfactory financial position for the purposes of reporting under SISA section 130,⁹⁶ the auditor still makes a separate assessment as to whether the SMSF is a going concern in forming their opinion on the financial report.
239. 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.⁹⁷ 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.⁹⁸
240. Having considered the matters above, under ASA 570, the auditor may conclude that either:
- (a) an unmodified auditor's opinion may be issued due to the fact that:
 - (i) the auditor is satisfied that it is appropriate, based on all reasonably foreseeable circumstances facing the SMSF, for the financial report to be prepared on a going concern basis; or

⁹⁵ ASA 570 provides requirements and guidance to the auditor where going concern issues exist.

⁹⁶ Reporting an unsatisfactory financial position to the ATO is addressed in the compliance engagement, paragraph 360 of this Guidance Statement.

⁹⁷ See regulation 9.38(1) of the SISR.

⁹⁸ See regulation 9.35 of the SISR.

- (ii) there is adequate disclosure of the principal conditions which caused the auditor to question the going concern basis, including, as appropriate, the trustees' evaluation of their significance and possible effects and any funding plans and other mitigating factors; or
 - (b) a modified auditor's opinion is necessary due to the existence of a material uncertainty which may cast significant doubt on the SMSF's ability to continue as a going concern, expressed as either:
 - (i) an emphasis of matter section in the auditor's report regarding a going concern uncertainty, where there is adequate disclosure of the uncertainty; or
 - (ii) a qualified or adverse opinion in the auditor's report, where there is inadequate disclosure of the uncertainty; or
 - (c) a modified auditor's opinion is necessary, due to the fact that the SMSF will not be able to continue as a going concern where the financial report had been prepared on a going concern basis, expressed as an adverse opinion.
241. Under ASA 570, the auditor communicates to the trustees if a modified opinion is to be issued on the basis of going concern. This communication may be done in conjunction with communication of other matters of governance interest arising from the audit, discussed further in paragraphs 260 to 264.

Subsequent Events

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

Winding-Up

244. If the trustees decide to wind up the SMSF, the SMSF still needs to be audited for the relevant financial year.
245. Upon winding-up, an audit is performed with increased testing in the areas of:
- Liquidated investments – to determine whether they were realised for cash or transferred in-specie and what value was received.
 - Benefit payments – to test that they are bona fide, calculated correctly and paid to the correct individual and the recipients have met a condition of release.
 - Cash – to ensure there are no transactions post balance date and that the balance is nil at balance date.
 - Rollovers – to test whether they were paid to complying superannuation funds.

Change of Auditor

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

Anti-Money Laundering

247. *The Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) is legislation designed to deter money laundering and terrorism financing. The AML/CTF Act sets out which entities are reporting entities and then imposes obligations on them when they provide one or more of the 'designated services' as set out in the AML/CTF Act. 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

248. With respect to the financial audit, the SISA, section 35C, requires the auditor to:
- (a) Give a report to the trustees, in the approved form, of the operations of the entity for that year.
 - (b) give the trustees the report in the approved form,⁹⁹ 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.¹⁰⁰
249. ASA 700 requires the auditor to form an opinion as to whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. In order to form that opinion the auditor *shall* conclude as to whether the auditor has obtained reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error.
250. ASA 220 requires that before the auditor's report is issued, the auditor performs a review of the audit documentation and conducts a discussion with the engagement team, in order to be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached.
251. In forming an opinion, the auditor considers all relevant evidence obtained, regardless of whether it appears to corroborate, or to contradict, information contained in the financial report.

Modifications to the Auditor's Opinion

252. Modifications to the auditor's opinion may be either:
- (a) a qualified opinion;
 - (b) a disclaimer of opinion; or
 - (c) an adverse opinion.

⁹⁹ The approved form auditor's report is also available at www.ato.gov.au/superfunds.
¹⁰⁰ See regulation 8.03 of the SISR.

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

253. ASA 800 requires an auditor's report for a SMSF to include an emphasis of matter paragraph to highlight the financial report is prepared in accordance with a special purpose framework and as a result, the financial report may not be suitable for another purpose. The inclusion of an emphasis of matter paragraph does not affect the auditor's opinion, but draws the user's attention to the matter raised. ASA 706 contains the requirements and guidance regarding an emphasis of matter paragraph. The ATO approved auditor's report¹⁰¹ contains the required wording.
254. An auditor's report may also include an emphasis of matter paragraph to highlight:
- (a) that a material uncertainty exists regarding a going concern matter that is adequately disclosed in the financial report;
 - (b) that additional disclosure is required to highlight that the financial report may be potentially misleading; or
 - (c) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.

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

255. An auditor's report may include another matter paragraph to highlight:
- (a) that the financial report has been revised due to the discovery of a subsequent fact, and replaces a previously issued financial report for which an auditor's report was issued.
 - (b) that the financial report of the prior period was audited by the predecessor auditor, the type of opinion expressed, the reasons if the opinion was modified and the date of the report;
 - (c) that the auditor's opinion on a prior period financial report differs from the opinion the auditor previously expressed;

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

256. A qualified opinion may be issued for a SMSF where the financial report is materially misstated or there is an inability to obtain sufficient appropriate evidence which is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. The auditor's inability to obtain sufficient appropriate audit evidence may arise from circumstances beyond the control of the entity, circumstances relating to the nature or timing of the auditor's work or limitations imposed by management. Examples of circumstances beyond the control of the entity include when the entity's accounting records have been destroyed. A qualified opinion is expressed as being "except for" the effects of the matter to which the qualification relates. The opinion paragraph is headed "Qualified Opinion".
257. A disclaimer of opinion is expressed when the possible effect of an inability to obtain sufficient appropriate evidence is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and, accordingly, is unable to express an opinion on the financial report. In these circumstances, the opinion paragraph is headed "Disclaimer of Opinion".

¹⁰¹ The ATO approved form auditor's report can be found on the ATO's website www.ato.gov.au/Superfunds form NAT 11466.

258. An adverse opinion is expressed when the effect of the misstatement is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor's report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph is headed "Adverse Opinion".
259. Whenever the auditor expresses an opinion that is other than unmodified, a clear description of all the substantive reasons is included in the auditor's report and, unless impracticable, a quantification of the possible effect on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore are included in the basis for modification paragraph of the auditor's report.

Communication of Audit Matters

260. Under ASA 260, the auditor communicates matters of governance interest arising from the audit to the trustees on a timely basis, to enable the trustees to take appropriate action. Ordinarily, the auditor initially discusses with the trustees and/or management those matters arising from an audit that are causing concern, including expected modifications, if any, to the auditor's report. This provides the trustees with an opportunity to clarify facts and issues and to provide further information.
261. The auditor is also required under ASA 260 to inform the trustees of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the auditor during the audit that were determined to be immaterial, both individually and in the aggregate, to the financial report taken as a whole.
262. Under ASA 260, the communication may be made orally or in writing, however, to meet the documentation requirements of ASA 230, the matters communicated and any responses need to be documented in the working papers. Oral communications may need to be confirmed in writing depending on the nature, sensitivity and significance of the discussions.
263. Under ASA 265, the auditor communicates deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.
264. Under ASA 250, any non-compliance which the auditor considers to be intentional and material, is communicated to the trustees without delay. The auditor's statutory reporting responsibilities in relation to matters of non-compliance may also necessitate reporting of such matters to the trustees and the ATO under section 129 of the SISA (see paragraphs 359-366).

PART B – COMPLIANCE ENGAGEMENT

265. The compliance engagement of a SMSF is driven by the provisions of the SISA and SISR specified in the approved form auditor's report and in the ACR, which comprise the compliance criteria for the engagement. These criteria can be grouped within the following categories:
- (a) establishment and operation of the SMSF;
 - (b) sole purpose;
 - (c) investment considerations;
 - (d) benefits restrictions;
 - (e) contributions restrictions;
 - (f) investment returns;
 - (g) solvency; and
 - (h) other regulatory information.
266. The specific criteria and corresponding provisions of the SISA and SISR which are required to be reported on in the auditor's report and the ACR under each of these categories are listed in Table 1 below. From time to time, the SISA, SISR and the approved form auditor's report may be amended and new Tax Rulings and Interpretive Decisions may be issued by the ATO. In these circumstances, the auditor will need to adapt the approach in this Guidance Statement to address changes to the compliance criteria.
267. The auditor may use a checklist as an aid in conducting and documenting the compliance engagement. Standardised checklists are available from a number of professional organisations. Auditors verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions as the Independent Auditor's Report is updated annually.¹⁰²

Table 1: Summary of Criteria for Compliance Engagement

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

Category	Specific Criteria	Auditor's Report ¹⁰³ Part B SISA/SISR	ACR ¹⁰⁴ SISA/SISR
<u>Establishment and operation of the SMSF</u>	Meets the definition of a SMSF.	S.17A	S.17A
	Trustees are not disqualified persons.	S.126K	S.126K
	Maintains minutes and records for at least 10 years.	S.103	S.103
	Maintains trustees' declarations about understanding their duties for those who become trustees for the first time after 30 June 2007, kept for as long as relevant or at least for 10 years.	S.104A	S.104A
	Maintains up to date records of all trustee changes, and copies of consent to act for a period of at least 10 years.	S.104 ¹⁰⁵	

¹⁰² The ATO's electronic superannuation audit tool (eSAT), may provide assistance and is available on the ATO website (www.ato.gov.au/eSAT).

¹⁰³ Self-Managed Superannuation Fund Independent Auditor's Report for periods commencing 1 July 2014 (NAT 11466).

¹⁰⁴ Auditor-actuary contravention report (ACR) (NAT 11239) available through the ATO's website on-line only.

¹⁰⁵ Section 104 of the SISA is a requirement that was included in the approved form auditor's report for the periods commencing on or after 1 July 2014, but was not included in the approved form auditor's report for the previous period.

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Category	Specific Criteria	Auditor's Report ¹⁰³ Part B SISA/SISR	ACR ¹⁰⁴ SISA/SISR
	Maintains copies of all member or beneficiary reports for a minimum of 10 years.	S.105 ¹⁰⁶	
	Proper accounting records kept and retained for at least 5 years.	S.35AE	-
	Annual financial report prepared, signed and retained for 5 years.	S.35B	-
	Trustee provides auditor documents within 14 days of written request.	S.35C(2)	S.35C(2)
	Trustees formulate, review regularly and give effect to an investment strategy.	R.4.09	R.4.09
<u>Sole purpose</u>	Established for the sole purpose of funding a member's benefits for retirement, attainment of a certain age, death, ill-health or termination of employment.	S.62	S.62
<u>Investment considerations</u>	Restrictions on investments in collectables and personal use assets	R.13.18AA	R.13.18AA
	Restrictions on acquiring or holding "in-house" assets.	Ss.82-85	Ss.82 -.85
	Restrictions on acquisitions of assets from related parties.	S.66	S.66
	Maintains arm's length investments.	S.109	S.109
	Maintains SMSF money and other assets separate from those of the trustees, employer-sponsors and other related parties.	R.4.09A	S.52B(2)(d) or R.4.09A
	Prohibition on lending or providing financial assistance to member or relative.	S.65	S.65
	Restrictions on borrowings.	S.67, S.67A, S.67B	S.67
	Prohibition on charges over SMSF assets.	R.13.14	R.13.14
	Assets valued at market value	R.8.02B	R.8.02B
<u>Benefits restrictions</u>	Trustees maintain members' minimum benefits.	R.5.08	R.5.08
	Minimum pension amount to be paid annually.	R.1.06(9A)	-
	Restrictions on payment of benefits.	R.6.17	R.6.17
	Prohibition on assignment of members' superannuation interest.	R.13.12	-
	Prohibition on creating charges over members' benefits.	R.13.13	-
<u>Contributions restrictions</u>	Accepts contributions within specified restrictions.	R.7.04	R.7.04
<u>Investment returns</u>	Reserves to be used appropriately and investment returns <i>must</i> be allocated to members' accounts in a manner that is fair and reasonable.	R. 5.03	-
<u>Solvency</u>	Unsatisfactory financial position.	-	S.130 ¹⁰⁷
<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 ¹⁰⁸

¹⁰⁶ Section 105 of the SISA is a requirement that was included in the approved form auditor's report for the periods commencing on or after 1 July 2014, but was not included in the approved form auditor's report for the previous period.

¹⁰⁷ Unsatisfactory financial position is reported separately from other contraventions in Section F of the ACR and the seven tests set out in the ACR instructions are not applicable. Also see Reg 9.04 of the SISR for the narrow definition of "unsatisfactory financial position."

¹⁰⁸ 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.

Materiality

268. In planning and performing the compliance engagement, ASAE 3100 requires the auditor to consider materiality and compliance engagement risk. In assessing materiality, the auditor considers qualitative and quantitative factors.
269. In determining whether a contravention identified is material, and therefore whether a modification to the auditor's report is warranted, the auditor considers factors such as:
- The value of the breach.
 - The time taken to rectify the breach, or if not yet rectified, the trustees' proposed actions and timeline for rectification.
 - Whether the auditor has previously reported a similar breach to the trustee.
 - The extent to which a limit has been exceeded or a statutory deadline missed.
 - Whether the breach was intentional.
 - Potential damage to members of a breach of the SISA or SISR occurring.

Establishment and Operation of the SMSF

270. In auditing the SMSF's compliance with the requirements regarding establishment and operation of the SMSF, the auditor conducts testing to determine that:
- (a) the SMSF meets the definition of SMSF;
 - (b) the trustees are not disqualified persons;
 - (c) the SMSF's minutes and records are retained for at least 10 years;
 - (d) the SMSF has and retains trustee declarations of duties signed by any new trustees after 30 June 2007 for at least 10 years;
 - (e) the SMSF's accounting records are kept and retained for five years;
 - (f) annual financial reports have been prepared for the SMSF, either signed by two individual trustees, two directors of the corporate trustee or the sole director of the corporate trustee, and retained for five years along with the SMSF's accounts;
 - (g) the SMSF has not entered into any contract or act that may prevent or hinder the trustees from properly performing or exercising their powers and functions; and
 - (h) an investment strategy which takes into account the risk, diversification, cash flows and liquidity of the SMSF has been formulated, given effect and reviewed regularly. The investment strategy must also consider if insurance is relevant to the members of the fund.

In addition, the auditor can expect the trustees to provide documents within 14 days that are requested in writing and are relevant to the preparation of the auditor's report, as required under the SISA.¹⁰⁹

Definition of SMSF

271. To determine if the SMSF meets the definition of a SMSF,¹¹⁰ the auditor may conduct procedures including:

¹⁰⁹ See subsection 35C(2) of the SISA.

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

Disqualified Persons

272. An individual SMSF trustee is disqualified under the SISA¹¹¹ 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.
273. A corporate trustee is disqualified if:
- (a) a responsible officer is a disqualified person; or
 - (b) the company is in receivership, administration, provisional liquidation or has begun winding-up proceedings.
274. Ordinarily, the auditor verifies that the trustees are not disqualified by obtaining trustee representations to that effect. During the course of the audit the auditor remains alert to circumstances which may indicate that a trustee may be technically disqualified, such as personal financial difficulties or a trustee's involvement in legal proceedings. In this case, the auditor may make enquiries such as checking the trustee's details against APRA's disqualification register,¹¹² 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

275. The auditor obtains representations from the trustees that the minutes and records of meetings have been held for at least 10 years, that accounting records and financial reports have been retained for 5 years, that member or beneficiary reports have been retained for at least ten years, and that records of all changes to the fund trustee are up to date and for trustees

¹¹⁰ The definition of a SMSF is in section 17A of the SISA. Also refer to SMSFR 2010/2. The scope and operation of subparagraph 17(A)(3)(b)(ii) of the SISA and ATO ID 2010/139 Subparagraph 17(A)(3)(b)(i) of the SISA – tribunal appointed administrator of the plenary estate of a person with a mental disability.

¹¹¹ See subsection 120(1) of the SISA. Also refer to ATO ID 2011/24 *Waiver of disqualified person status – meaning of 'serious dishonest conduct'*.

¹¹² The ATO does not publish a trustee disqualification register, however as APRA was the regulator of SMSFs prior to the ATO, APRA's register reflects disqualifications imposed when APRA regulated SMSFs.

appointed after 30 June 2007, they have signed and retained a “Trustee Declaration”. for at least ten years.¹¹³

276. The SISA requires that the records be kept in the English language or a form that is readily convertible to English.¹¹⁴ and be kept in Australia (or another country if the Regulator gives approval for the records to be kept in another country). Generally, investment documentation in a foreign language, required as audit evidence, is translated at the SMSF’s expense into English. This facilitates more efficient and effective auditing and quality control.
277. The auditor may request that the trustees provide documents 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, should result in a qualified auditor’s report provided a written request was made under section 35C (2) of SISA and the documents were not supplied within 14 days. ATO reporting is also required if the information has not been provided to the auditor within 28 days of the auditor’s request for the information.

Contracts Restricting Trustees’ Functions and Powers

278. The auditor considers contracts entered into on behalf of the SMSF, the governing rules and any other arrangements in the light of the SISA’s prohibition on entering a contract or doing anything which prevents the trustees from, or hinders the trustees in, properly performing or exercising their functions and powers.¹¹⁵ The auditor may obtain representations from the trustees that no such arrangement has been entered into.

Investment Strategy

279. In the approved form auditor’s report the auditor states that their procedures “included testing that the fund trustee has an investment strategy, that the trustee has given consideration to risk, return, liquidity, diversification, the insurance needs of the fund members, and that the fund’s investments are made in line with that investment strategy”. The SISR¹¹⁶ requires the trustees of a SMSF to formulate, regularly review and give effect to an investment strategy that has regard to all the circumstances of the SMSF, including:
- The risk involved in making, holding and realising, and the likely return from, the SMSF’s investments, having regard to its objectives and expected cash flow requirements.
 - The composition of the SMSF’s investments as a whole, including the extent to which they are diverse or involve exposure of the SMSF to risks from inadequate diversification.
 - The liquidity of the SMSF’s investments, having regard to its expected cash flow requirements.
 - The ability of the SMSF to discharge its existing and prospective liabilities.
 - Whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members of the fund.
280. Ordinarily the investment strategy is documented in writing and the auditor assesses that the trustees have properly considered all the circumstances of the SMSF, however the auditor is not required to assess whether the investment strategy is adequate to meet the long term investment needs of the SMSF and the auditor states in their report that “no opinion is made on the investment strategy or its appropriateness to the fund members”.

¹¹³ The *Trustee Declaration* is an approved form issued by the ATO (NAT 71089), available from the ATO’s website at www.ato.gov.au.

¹¹⁴ See section 35A of the SISA.

¹¹⁵ See section 52(2)(e) of the SISA.

¹¹⁶ See regulation 4.09 of the SISR.

281. In order to determine whether the trustees have given effect to the investment strategy, the auditor assesses whether the investments made during the period are invested according to the documented investment strategy as approved by the trustees. The auditor obtains evidence as to whether the trustees have reviewed or modified their investment strategy during the period to accommodate the SMSF's changing needs and changes in the investment environment.
282. The frequency that a trustee should review the fund's investment strategy in order to satisfy the requirements of Regulation 4.09 of the SISR is not specified, and it is the role of the trustee to determine what is appropriate to meet the requirement. The expectation from the ATO is that this would be at least annually. The role of the auditor is to use professional judgement in determining if this requirement has been met.

Sole Purpose

283. The SISA¹¹⁷ requires the trustees to ensure that the SMSF is maintained solely for one or more of the allowable core purposes and, in addition, may also be maintained for one or more of the allowable ancillary purposes. The allowable core purposes are the provision of benefits for each member on their retirement, attainment of a prescribed age or death prior to retirement or attaining the prescribed age. The allowable ancillary purposes are the provision of benefits for each member on termination of employment, cessation of work due to ill-health, death after retirement or attainment of a prescribed age, or a benefit approved by the ATO. The "sole purpose test" is a conceptual test that when satisfied demonstrates that the SMSF has in fact been maintained solely for the allowable purposes and requires a higher standard than maintenance of the SMSF for a dominant or principal purpose. The approved form auditor's report, requires the auditor to separately state that their procedures "included testing that the fund's governing rules establishes the fund solely for the provision of retirement benefits for fund members or their dependents in the case of a member's death before retirement".
284. The trustees of a SMSF are required to maintain a SMSF in a manner that complies with the sole purpose test at all times while the SMSF is in existence. This extends to all activities of the SMSF including:
- Accepting contributions.
 - Acquiring and investing the SMSF's assets.
 - Administering the funds.
 - Employing and using the SMSF's assets.
 - Paying benefits, including those benefits on or after retirement.
285. In assessing whether a SMSF has complied with the sole purpose test, the auditor may refer to the ATO's Ruling SMSFR 2008/2 on the application of the sole purpose test to circumstances where the SMSF is maintained for the purposes prescribed while providing benefits, particularly to members or related parties, other than those specified in section 62 of the SISA. SMSFR 2008/2 states that a SMSF may still satisfy the sole purpose test despite the provision of benefits not specified in section 62, if the benefits are "incidental, remote or insignificant". In order to determine whether the benefits are incidental, remote or insignificant, the circumstances surrounding the SMSF's maintenance need to be viewed "holistically and objectively".
286. In assuring compliance with the sole purpose test, the auditor looks for the provision of current day benefits, being benefits to a member or related party before the member's retirement, employment termination or death, and assesses whether those benefits fail the sole purpose test. Furthermore, the SISR¹¹⁸ contains strict regulations in relation to collectables and

¹¹⁷ See section 62 of the SISA.

¹¹⁸ See regulation 13.18AA of the SISR.

personal use assets. In-house assets are discussed further in paragraphs 299 to 301, while collectables and personal use assets are discussed further in paragraphs 295 to 298.

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

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

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

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

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

- Transactions not at arm's length¹¹⁹
- Loans or financial assistance to members or relatives.¹²⁰
- Acquisitions from related parties.¹²¹
- Charges over assets.¹²²
- Assignment of, or charges over, member's benefits.¹²³
- SMSF assets not held separately from the members' personal assets.¹²⁴
- Acquisition of "in-house" assets in excess of 5% of the total market value of the SMSF assets.¹²⁵
- Collectables and personal use assets.¹²⁶

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

¹¹⁹ See section 109 of the SISA.

¹²⁰ See section 65 of the SISA.

¹²¹ See section 66 of the SISA.

¹²² See regulation 13.14 of the SISR.

¹²³ See regulations 13.12 and 13.13 of the SISR.

¹²⁴ See section 52B(2)(d) of the SISA and SISR regulation 4.09A of the SISR.

¹²⁵ See part 8 of the SISA.

¹²⁶ See regulation 13.18AA of the SISR.

Running a Business

290. The auditor remains alert to circumstances which indicate that the SMSF is running a business or conducting operations which may be akin to running a business, as this activity may breach the sole purpose test. Indications that a business is being conducted by the SMSF may include revenues from trading activities, employing staff and paying operating expenses. A business is not usually administered for the sole purpose of providing the allowable benefits to members or beneficiaries of the SMSF, as there is an inherent risk that running a business may jeopardise the member's benefits.¹²⁷ Although the operation of a business is not prohibited by the SIS, specific additional obligations need to be met by the fund to ensure on-going SIS compliance.
291. If a trustee is also an employee of the business, payment of salary or wages to the trustee must be on an arms-length basis. The auditor assesses all circumstances of a SMSF running a business to determine whether it is in breach of the SISA or SISR. It is also essential to ensure that the deed of the fund permits the trustee to operate a business.
292. SMSFs that engage in high volume trading of derivatives, listed securities, real property or other investments or a series of property developments may be running a business for purposes other than solely for providing specified benefits to members and beneficiaries. For SMSFs conducting activities of this kind, the auditor considers whether the activities are justified in giving effect to the investment strategy.

Units in a Related Unit Trust

293. Investments in related unit trusts, where trustees or members of the SMSF are also trustees of the related unit trust, are common SMSF investments. The auditor considers the sole purpose test in light of the investments held in, and by, the related unit trust to ensure that the investments held are for the long-term provision of allowable benefits to members and not to provide other benefits to the trustees, members or their relatives. The auditor may also need to consider whether the investment breaches the prohibition on acquisitions from related parties, the prohibition on borrowings or exceeds the "in-house" asset limits¹²⁸. SIS obligations vary depending on the date the fund invested and whether the investment falls under the exception in Division 13.3A of the SISR.

Investment Considerations

294. The SISA contains a number of investment restrictions with which the trustees are required to comply. In assessing whether these prohibitions have been complied with, the auditor examines the nature of each material investment to ensure that the investment is permitted under the SISA.

Collectables and personal use assets

295. Collectables and personal use assets under the SISA and SISR are permitted investments for SMSFs provided the asset was not acquired to provide a personal benefit for the member or their related parties. Collectables or personal use assets¹²⁹ that are acquired by the fund on or after 1 July 2011 are subject to restrictions¹³⁰ contained in the regulation 13.18AA of the SISR including:
- Must not be leased to any related party¹³¹ of the fund.

¹²⁷ Also refer to SMSFR 2008/2: *The application of the sole purpose test in section 62 of the SISA to the provision of benefits other than retirement, employment termination or death benefits.*

¹²⁸ See paragraphs 309-312.

¹²⁹ Collectables and personal use asset list contained in Regulation 13.18AA(1) of the SISR.

¹³⁰ Restrictions are subject to transitional arrangements. Collectables and personal use assets held by funds prior to 30 June 2011 are not subject to restrictions until 1 July 2016, at which time, trustees will be required to comply with all restrictions. This transitional period provides SMSF trustees with existing investments in collectables and personal use assets time to comply with the rules.

¹³¹ Related party is defined in Section 10(1) of the SISA.

- Must not be stored or displayed in the private residence of any related party of the fund.
- Cannot be used by any related party of the fund.
- Trustees are required to make a written record of the reasons for the decisions on where to store the collectables and personal use assets and keep the record for 10 years.
- Insured in the name of the fund within seven days of acquisition.
- Transfers of ownership to related parties must be done at market value¹³² determined by a qualified independent valuer.¹³³

The auditor obtains sufficient appropriate audit evidence that the restrictions on collectable and personal use assets have been complied with.

296. Membership investments, such as ski lodge, country club or golf club memberships, providing a right to use a facility or service, will usually fail the sole purpose test if the trustees or members derive a current day benefit from the investment. Furthermore, the SISR prohibits these lifestyle assets from being used by the member or related party of the fund.¹³⁴ 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.
297. Investments in holiday houses or apartments need to be reviewed to ascertain if there has been use or enjoyment of the property by the trustees, members or a related party as this is a strong indication that the sole purpose test has been breached and may also render the investment an “in-house” asset,¹³⁵ in which case the in-house asset limits will apply. Furthermore, the SISR prohibits the use of such investments by members and related parties of the fund.¹³⁶
298. Generally, investments that provide an ancillary benefit as part of the investment need to be examined to determine whether the investment as a whole meets the sole purpose test. Ancillary benefits include, but are not limited to, such things as a discount on a product or service, priority access to a facility, upgrades or free products or services.

“In-house Assets”

299. An “in-house” asset of a SMSF is an asset that is a loan to a related party, an investment in a related party, an investment in a related trust or an asset of the SMSF subject to a lease between the trustees and a related party of the SMSF.¹³⁷ A related trust is a trust that a member or employer-sponsor controls.¹³⁸ There are a number of exceptions to the definition of in-house assets and transitional provisions included in Part 8 of the SISA.¹³⁹ The auditor needs to be familiar with these exceptions when considering in-house asset requirements.
300. The SISA has strict limits on the level of “in-house assets” permitted to be held by the SMSF. The market value of the in-house asset *must* not exceed 5% of the total market value of the SMSF’s assets at the time of acquisition¹⁴⁰ and at year end.¹⁴¹ 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

¹³² Market value is defined in Section 10(1) of the SISA.

¹³³ See ATO’s Valuation guidelines for self-managed superannuation fund (web-based).

¹³⁴ See regulation 13.18AA(6) of the SISR.

¹³⁵ See guidance on “in-house” assets is provided in paragraphs 299 to 301 of this Guidance Statement.

¹³⁶ See regulation 13.18AA(6) of the SISR.

¹³⁷ Defined in subsection 10(1) of the SISA. Also refer to SMSFR 2009/4 the meaning of ‘asset’, ‘loan’, ‘investment in’, ‘lease’ and ‘lease arrangement’ in the definition of an ‘in-house asset’ in the SISA.

¹³⁸ Defined in subsection 10(1) of the SISA.

¹³⁹ See also regulations 13.22B, 13.22C and 13.22D of the SISR. SMSFR 2009/1 is also relevant to the definition of business real property and the exceptions under S71(1) of SISA.

¹⁴⁰ See section 83 of the SISA.

¹⁴¹ See section 82 of the SISA.

assets to ensure that the legislative limits are not exceeded either when they were acquired or at year end.

301. The auditor remains alert to schemes intentionally entered into or carried out by the trustees which have the effect of artificially reducing the market value ratio of the SMSF's in-house assets. Such actions are prohibited under the SISA.¹⁴²

Acquisition of Assets from Related Parties

302. Trustees and investment managers are prohibited, under the SISA,¹⁴³ from acquiring assets from a related party unless the assets are acquired at market value and are either:

- (a) listed securities;
- (b) business real property;
- (c) in-house assets within the 5% ratio limit;
- (d) life insurance policies that are not acquired from a member or relative; or
- (e) assets which are ordinarily in-house assets but are exempted by the operation of paragraph 71(1) of the SISA; and
 - (i) the asset is acquired at market value; and
 - (ii) the acquisition would not result in a breach of the 5% ratio limit.

303. Business real property¹⁴⁴ is land and buildings used wholly and exclusively for business purposes.¹⁴⁵ It does not extend to:

- (a) vacant land, unless used in primary production;
- (b) land used for property development or shares held in an unlisted property owning company; or
- (c) residential properties except where the residence provides accommodation that is in the nature of a business (e.g. for a motel); or the residence is on less than two hectares of a larger parcel of land which is predominately used in a primary production business.

304. Assets which would ordinarily be defined as in-house assets but which are exempt under the provisions of paragraph 71(1) of the SISA include deposits with an approved deposit institution, an investment in a pooled superannuation trust where the trustee has acted on an arm's length basis, an asset which the regulator has determined is not an in-house asset, an investment in a widely held unit trust, and non-g geared unit trusts which meet the other requirements of the SISR.¹⁴⁶

305. Ordinarily, the auditor examines the documentation surrounding the purchase of material investments, to ascertain whether the vendor was a related party. This may involve checking the contract or sale document to confirm who the parties to the transaction were and, to the extent possible, their relationship with the trustees and members. The auditor makes enquiries in the planning phase of the audit in order to identify parties, whether individuals or entities related to the trustees or members.

¹⁴² See section 85 of the SISA.

¹⁴³ See section 66 of the SISA.

¹⁴⁴ Defined in subsection 66(5) of the SISA. Refer to SMSFR 2010/1 for the application of subsection 66(1) of the SISA to the acquisition of an asset by a SMSF from a related party.

¹⁴⁵ See SMSFR 2009/1 *Business real property for the purposes of the SISA*.

¹⁴⁶ See regulation 13.22A - 13.22D of the SISR

Arm's Length Investments

306. The SISA¹⁴⁷ requires the trustees and investment managers to invest and maintain the SMSF's assets at arm's length. Indicators of non-arm's length investments may include:
- Investments in a related party.
 - Investments being managed by a related party.
 - Details of parties to a contract indicate related parties.
 - Uncommercial or disadvantageous terms of a lease or loan.
 - Acquisition or disposals of SMSF assets that do not appear to be at commercial rates.
 - No formal contracts established for loan, lease or other arrangement.
 - Assets, such as rental properties, deriving little or no income, or income well below commercial rates.
 - Investments which are inconsistent with the investment strategy or entered into without a sound rationale.
307. The auditor assesses all aspects of the transaction, including that the settlement terms, interest rates, rents, lease refurbishment term, warranties, security and repayment terms are commercial in nature in accordance with section 109 of the SISA. The SISA¹⁴⁸ requires that the terms and conditions of a transaction must not be more favourable to the other party than would be reasonably expected if the parties were at arms-length. ATO ID 2010/162 clarifies that there is no contravention of section 109 of the SISA if the terms are more favourable to the SMSF. However, if the terms are more favourable to the SMSF the asset and associated income will be treated as non-arm's length, resulting in the income (less associated expenses) being taxed as non-arm's length income, and the asset disposal being treated as a non-arm's length disposal.

Assets Held Separately

308. The trustees are required¹⁴⁹ to keep the money and the assets of the SMSF separate from their personal or business assets of the trustees and from the assets of standard employer-sponsors. The auditor examines the affairs of the SMSF to identify possible situations where the assets of the SMSF may have become intermingled with assets of the trustees or standard employer-sponsors. The auditor checks that the assets of the SMSF are registered in the SMSF's name or, where assets cannot be held directly by the SMSF (for example in some jurisdictions, a property title may not be able to be held in the name of the fund), there is other clear evidence that those assets are held beneficially on behalf of the SMSF, such as a declaration of trust or an acknowledgement of trust.
309. Where there has been a change in trustees, the auditor generally checks that the ownership documents for fund assets have been updated.
310. The auditor confirms that the SMSF maintains a separate bank account for all fund monies and examines payments and receipts to ascertain that dividends, interest and other income of the SMSF are not banked into personal or business accounts, particularly where a corporate trustee operates a number of bank accounts as well as conducting the affairs of the SMSF. The auditor may test that dividends declared for listed securities held are received and banked by the SMSF.

¹⁴⁷ See section 109 of the SISA.

¹⁴⁸ See section 109(1)(b) of the SISA.

¹⁴⁹ See subsection 52B(2)(d) of the SISA, and Regulation 4.09A of the SISR.

Loans and Financial Assistance to Members or their Relatives

311. SMSFs are not permitted to lend money or provide financial assistance to members or their relatives¹⁵⁰ and the approved form auditor's report states that the auditor procedures included "a review of investments to ensure the fund is not providing financial assistance to members, unless allowed under the legislation". The auditor examines the bank account and obtains explanations for material withdrawals and deposits in order to ascertain whether any loan or financial assistance benefit has been provided to a trustee, member or relative of a member or trustee. In certain circumstances, access by members or their relatives to SMSF funds may be considered to be an early access to benefits without meeting a condition of release.¹⁵¹
312. In cases where funds are accessed in error by the trustees for non-SMSF use, the breach may affect the audit opinion, unless the amount is immaterial, the event is infrequent and repayment is made in full. Interest at commercial rates may also be appropriate.
313. The auditor reviews the ownership of the SMSF's assets to ensure that a charge or other form of security has not been taken over any of the SMSF's assets to secure a member's or relative's borrowings, which would be a form of financial assistance. This may require performing a title search for the SMSF's real property to identify any encumbrances.

Borrowings

314. SMSFs are not permitted to borrow money,¹⁵² with the exceptions¹⁵³ of borrowings:
- (a) to pay a benefit, pension or superannuation contribution surcharge liability (no longer levied), for a maximum of 90 days for up to 10% of the value of the SMSF's assets;
 - (b) to cover settlement on a security transaction for a maximum period of 7 days, for up to 10% of the value of the SMSF's assets provided that, at the time the relevant investment decision was made, it was likely that the borrowing would not be needed; or
 - (c) that are part of a limited recourse borrowing arrangement.¹⁵⁴
315. Ordinarily, the auditor reviews the bank statements to ascertain whether any non-compliant borrowings were made during the period, whether by way of an overdraft or a loan account.
316. Margin lending, in general, involves a borrowing arrangement where a loan is taken out using the listed securities purchased as security for that loan. Margin loan facilities breach the SISA and SISR by virtue of the fact that the borrowing is not an approved exception to the borrowing prohibition and SMSFs are not permitted to give a charge over some or all of the fund assets as required by a margin lending arrangement. If the SMSF is involved in trading of securities or derivatives, the auditor examines related documentation for indications of the existence of margin lending arrangements, such as interest payments on broker's statements, margin call payments or significant listed securities purchases without corresponding payments.
317. The auditor reviews any investments in derivatives, including options, futures, or swaps, to ascertain that the investments are in accordance with the investment strategy, any current legislative requirement and that the investment is not putting the assets of the SMSF at risk. Derivatives, due to their inherent nature, may be high risk and involve borrowings that may have recourse to the SMSF. Where the auditor is unsure of the legality of the investment, the

¹⁵⁰ See section 65 of the SISA. Also refer to SMSFR 2008/1 *Giving financial assistance using the resources of a SMSF to a member or relative of a member that is prohibited for the purposes of section 65(1)(b) of the SISA*.

¹⁵¹ 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.

¹⁵² See section 67(1) of the SISA. Also refer to SMSFR 2009/2 *The meaning of "borrow money" or "maintain an existing borrowing of money" for the purposes of section 67 of the SISA*.

¹⁵³ See sections 67 and 67(A) of the SISA.

¹⁵⁴ See ATO Ruling SMSFR 2012/1 *Self-Managed Superannuation Funds: limited recourse borrowing arrangements – application of key concepts* (SMSFR 2012/1).

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.

318. Where the SMSF has derivative instruments, the auditor obtains the derivative risk statement prepared by the trustees and considers whether it complies with regulation 13.15A of the SISR.
319. Investments in limited recourse borrowing arrangements are an exception to the prohibition on borrowings. Limited recourse borrowing arrangements are complex financial arrangements whereby the SMSF buys an asset via a limited recourse agreement where there is some debt funding or borrowing to purchase the asset. The transaction is characterised by an asset held in trust for the SMSF, where the SMSF holds an interest in the income and the rights to acquire the asset. The SMSF may be required to make regular instalments or repayments. Recourse by the lender, against the fund trustee, in the case of failure to settle the loan, is required to be solely over, and limited to, the asset held in the trust arrangement. After commencing the borrowing, the SMSF is required to make at least one payment before purchasing the asset. Whilst there is no formal requirement for regular repayments / instalments, the lack of repayments may bring into question the commercial rationale of the underlying investment and whether the sole purpose test is being breached.
320. From 24 September 2007, superannuation funds were allowed to invest in certain limited recourse borrowing arrangements involving borrowing money to acquire a permitted asset. Those arrangements need to meet the conditions stipulated by the law in the former subsection 67(4A) of the SISA. Those rules continue to apply to limited recourse borrowing arrangements that were entered into before 7 July 2010.
321. For limited recourse borrowing arrangements¹⁵⁵ entered into by superannuation funds on or after 7 July 2010 or previous section 67(4A) debt arrangements that have been refinanced after 7 July 2010:
- (a) the asset within the arrangement can only be replaced by a different asset¹⁵⁶ in very limited circumstances specified in the law;
 - (b) superannuation fund trustees cannot borrow to improve an asset¹⁵⁷ (for example, real property);
 - (c) the borrowing is permitted only over a single asset or a collection of identical assets that have the same market value;
 - (d) the asset within the arrangement is not subject to a charge other than to the lender in respect of the borrowing by the superannuation fund trustee.¹⁵⁸
322. Procedures which the auditor may conduct in auditing compliance of limited recourse borrowing arrangements with the SISA and SISR may include:
- Examination of the fund's governing rules to determine if the SMSF is permitted to borrow.
 - Examination of the investment strategy, or discussions with the trustees if there is no written investment strategy, to determine if limited recourse borrowing arrangements and the percentage of funds devoted to them are allowed within that strategy.

¹⁵⁵ See sections 67A and 67B of the SISA.

¹⁵⁶ Table 2 in ATO ruling SMSFR 2012/1 provides illustrative guidance as to whether a change to a single acquirable asset results in a different asset.

¹⁵⁷ Table 1 in ATO ruling SMSFR 2012/1 provides illustrative guidance contrasting repairs or maintenance with improvements.

¹⁵⁸ See ATO ID 2010/162, ID 2010/184 and ID 2010/185 for further guidance.

- Identification of the nature of the asset purchased and whether the vendor is a related party so as to ensure that the transaction is permitted under the SISA, SISR and the fund's governing rules.
- Determination of whether the debt arrangement or loan agreement is a non-recourse agreement as required by the SISA,¹⁵⁹ whereby the other assets of the SMSF are not used as security for the loan.
- Determination of whether the finance is provided by a related party, such as a family trust, in order to identify any potential non arm's length dealings.
- Determination of whether the funds borrowed were used to purchase an asset held in the limited recourse borrowing arrangement.
- Determination of whether the funds borrowed has been used to improve an asset.
- Identification of whether the terms of the loan are commercial. Less than commercial interest rates may be a means of making additional contributions to the SMSF, whereas an excessively high interest rate may fail the sole purpose test, or potentially be a scheme to access benefits.
- Identification of any arrangements outside the SMSF, such as a personal guarantee, which may have recourse to the assets of the SMSF, other than the asset acquired (or any replacement), as this may be a breach of the borrowing restriction exception granted to limited recourse borrowing arrangements.
- Determination of whether the original asset has been added to in any way, either by additional shares or further purchases, since if the limited recourse borrowing asset has increased, this would indicate a further borrowing and therefore a potential breach of the prohibition on borrowing.
- For limited recourse borrowing arrangements entered into from 1 July 2010, determination of whether:
 - a replacement to the asset has been made contrary to the law;
 - the fund has not borrowed to improve an asset in the arrangement;
 - the trust asset is a single asset or identical assets that have the same value, for e.g. ordinary shares; and
 - there is no charge over the asset except per the limited recourse arrangement.¹⁶⁰

Charges Over Assets

323. SMSFs are not permitted to use the assets of the SMSF to secure a debt facility¹⁶¹ and, hence, charges and liens over assets are not permitted. Also, charges and liens over any member benefits are prohibited. Additional audit procedures include review of any bank confirmations for charges, title searches on properties of the SMSF to identify any charges or liens, the Personal Properties Securities Register for parties registering interests against other SMSF assets and examination of the accounting records or bank statements to identify any interest payments made by the SMSF, which may indicate a loan facility.

¹⁵⁹ See subsection 67A(1) of the SISA.

¹⁶⁰ See ATO SMSFR 2012/1 for further guidance on the requirements for limited recourse borrowing arrangements. Also see ATO ID 2010/162, 2010/184 and 2010/185.

¹⁶¹ See regulation 13.14 of the SISR. Also see ATO IDs 2010/162, 2010/169, 2010/170, 2010/172, 2010/184, 2010/185, 2014/39 and 2014/40.

324. Similarly, the auditor ordinarily reviews the ownership of the SMSF's assets to ensure that a charge, or other form of security, has not been taken over any of the SMSF's assets. This may extend to reviewing any product disclosure statement relating to assets acquired to determine whether the product has any recourse to the SMSF. Even if the marketing or summary material claims there is no recourse to the SMSF, the auditor still checks the actual provisions of the arrangement.
325. Where the SMSF has investments in related or unlisted unit trusts, the auditor is alert to any borrowings the unit trust may have and whether there is any recourse to the SMSF. Where a related unit trust has allowed a charge over its assets or has a borrowing, the investment in the unit trust becomes and remains an in-house asset of the fund.
326. Ordinarily, the auditor requests a financial report, the tax return and distribution statements, for investments in unit trusts, to identify income, net asset value and any debts owing by the unit trust. In certain cases, the unit trust deed may be required to assist the auditor in assessing compliance.

Asset Valuation

327. The trustees are required to value fund assets at market value.¹⁶² See paragraphs 163 to 171 for requirements and explanatory guidance on asset valuations.

Benefit Restrictions

328. The member's ability to receive a benefit normally depends on:
- (a) the type of benefit the member has accumulated in the SMSF;
 - (b) the member's age and whether any preservation restrictions apply to the benefit; and
 - (c) whether the rules of the SMSF permit the benefit to be paid at the time.¹⁶³

Minimum Benefits

329. The trustees are required¹⁶⁴ to maintain the members' minimum benefits until the benefits are paid out, rolled over or transferred.

Payment of Benefits

330. Generally, benefit payments are triggered due to a condition of release being met. The approved form auditor's report states that the auditor's procedures include testing "that no preserved benefits have been paid before a condition of release has been met". Conditions of release are specified in the SISR¹⁶⁵ and may be further restricted by the SMSF's governing rules. Conditions of release include retirement, reaching age 65, death, permanent or temporary incapacity, terminal medical condition, attaining the prescribed preservation age for a transition to retirement benefit,¹⁶⁶ severe financial hardship and compassionate grounds which are assessed by the Department of Human Services.¹⁶⁷
331. For pension payments, the auditor ensures that any payments meet the minimum and maximum,¹⁶⁸ if required, payment conditions as stipulated in the SISA and SISR and an appropriate condition of release has been met. In particular, funds paying account based

¹⁶² See regulation 8.02B of the SISR.

¹⁶³ More information is available on the ATO's website ato.gov.au (search under Paying benefits).

¹⁶⁴ See regulation 5.08 of the SISR.

¹⁶⁵ Conditions of release are listed in Schedule 1 and detailed in Part 6 of the SISR.

¹⁶⁶ 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.

¹⁶⁷ Under part 6 of the SISA the Chief Executive Medicare has the general administration of SISR regulations about the release of superannuation on compassionate grounds.

¹⁶⁸ Maximum payments exist for transition to retirement income streams.

pensions are required to pay an annual minimum pension amount¹⁶⁹ which is calculated by applying a percentage rate, dependent on the member's age,¹⁷⁰ at the 1st July of the reporting year being audited, to the member's account balance. A payment made as a result of a partial commutation¹⁷¹ of an account based pension (including a transition to retirement income stream¹⁷²) counts towards the minimum annual amount. A payment made as a result of a full commutation cannot count towards the minimum annual amount as the account based pension ceases before payment is made.¹⁷³ The auditor confirms that a series of payments have been made over the life of each pension account. Subsequent pension payments are reviewed to confirm that a series of payments has been made.

332. Where pension payments are less than the required minimum, the pension is taken to have ceased at the beginning of that year¹⁷⁴ and the income from assets that support the pension will not be tax exempt for the year.¹⁷⁵ The ATO guidelines *Self-Managed superannuation funds – starting and stopping a superannuation income stream (pension)*¹⁷⁶ outlines exceptions whereby the Commissioner may exercise discretion in allowing a SMSF to treat income as exempt pension income even though the minimum pension standards have not been met. Furthermore the guidelines outline the circumstances under which the ATO will allow a trustee to self-assess their entitlement to this concession.
333. For lump sum payments, the auditor ensures that the fund's governing rules permit such payments and that an appropriate condition of release has been satisfied.
334. In relation to testing the compliance of both lump sum or pension-type benefits, the auditor considers whether:
 - (a) the circumstances of the individual in triggering the payment of the benefit are consistent with a condition of release;
 - (b) the member has satisfied the payment criteria; and
 - (c) the benefit has been calculated correctly in accordance with the method provided in the governing rules.
335. Ordinarily, the auditor tests the validity of the payment by checking to source documents that the benefit payment is *bona fide*, such as sighting a signed letter to the trustees requesting the benefit be paid and that retirement is evidenced by a statutory declaration or similar document stating that the individual has retired and will not be seeking paid employment in the future.
336. Total and permanent disability generally requires at least two appropriately qualified medical practitioners to certify that the individual is unlikely to work in paid employment or meets such similar definition as may be contained in the governing rules of the SMSF. The SMSF may or may not have insurance for total and permanent disability.
337. With respect to death benefits, the auditor checks the trust deed obligations, and whether a binding death benefit nomination form has been completed by the deceased. The auditor ascertains where the death benefits have been paid to confirm that they have gone to either a dependant(s) or the estate of the deceased. The auditor enquires as to whether any additional

¹⁶⁹ See subregulation 1.06(9A)(a) of the SISR.

¹⁷⁰ See schedule 7 of the SISR.

¹⁷¹ SMSFD 2013/2 explains that a partial commutation occurs when a member in receipt of a pension consciously exercises their right to exchange something less than their full entitlement to receive future pension payments for an entitlement to be paid a lump sum. As there is still an obligation to continue to pay pension benefits, a partial commutation does not result in the cessation of the pension.

¹⁷² SMSFD 2014/1 specifically includes transition to retirement income streams.

¹⁷³ ATO Taxation Ruling *Income tax: when a superannuation income stream commences and ceases* (TR 2013/5) explains that a superannuation income stream that is an account based pension ceases when a valid request for a full commutation takes effect and therefore ceases before the lump sum payment is made.

¹⁷⁴ ATO Taxation Ruling TR 2013/5 explains when a superannuation income stream commences and ceases and consequently when a superannuation income stream is payable.

¹⁷⁵ See sub-regulation 1.06(9A) and Schedule 7 of SISR.

¹⁷⁶ ATO's guidelines *self-managed superannuation funds – starting and stopping a superannuation income stream (pension)* can be found on the ATO's website www.ato.gov.au/super/self-managed-super-funds (webpage only).

insurance benefit is payable and whether the trustees have claimed any available tax deductions for anti-detriment payments.

338. If an appropriately witnessed and executed binding death benefit nomination has been made, ordinarily, the auditor enquires to ensure that the benefit was paid appropriately according to the nomination's intent. The auditor also checks that nominated beneficiaries are entitled to receive death benefits under the trust deed and the super law.
339. If the SMSF has an insurance policy covering total and permanent disability, total and temporary disability or death or a combination of these benefits, ordinarily the auditor enquires to see if a claim has been made or paid to support the benefit. If the proceeds of any such claim have been paid, ordinarily, the auditor checks to see that the benefit has been applied either to the member's account or paid to the legal personal representative or beneficiaries.

Assignment of Members' Interests and Charges over Members' Benefits

340. The trustees are not permitted to recognise, or in any way encourage or sanction, an assignment of a superannuation interest, of a member or beneficiary,¹⁷⁷ or a charge over, or in relation to, a member's benefits.¹⁷⁸ Audit evidence is obtained by receiving a signed trustee representation letter confirming these requirements have been met throughout the period.

Contribution Restrictions

341. A contribution is defined as anything of value that increases the capital of a superannuation fund provided by a person whose purpose is to benefit one or more particular members of the fund or all of the members in general.¹⁷⁹ Ordinarily, the auditor examines all contributions made to the SMSF to assess whether they have been made in accordance with the fund's governing rules, SISA and SISR and, that in accepting the contribution, the SMSF is not contravening the SISA and SISR. In making this assessment, the auditor identifies the type of contribution made, the age of the member and the source of the contribution.
342. The auditor tests that the SMSF has accepted contributions only in accordance with the SISR,¹⁸⁰ 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;¹⁸¹ 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.

¹⁷⁷ See regulation 13.12 of the SISR.

¹⁷⁸ See regulation 13.13 of the SISR.

¹⁷⁹ See TR 2010/1 *Income tax: Superannuation contributions*.

¹⁸⁰ See regulation 7.04 of the SISR.

¹⁸¹ 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.

- (c) other contributions for a member who is under 65 years of age; or
 - (d) contributions received at a later date in respect of a period in which the member met the age restrictions.
343. The auditor also tests that contributions are:
- (a) within contribution caps specified in the SISR, being:
 - (i) if the member is 64 or less on 1 July of the financial year – three times the amount of the non-concessional contributions cap; or
 - (ii) if the member is 65 but less than 75 on 1 July of the financial year – the non-concessional contributions cap; and
 - (b) for a member for whom a tax file number (TFN) has been supplied.
344. In verifying the appropriateness of contributions received the auditor considers factors including:
- The type and source of the contribution.
 - The age of the member.
 - Whether a tax file number has been provided.
 - The amount contributed.
 - The timing of when the contribution was made.
345. Ordinarily, the auditor checks to see that the classification of any taxable contributions is appropriate and allocated to the correct member account. If a single non-concessional contribution which is in excess of the non-concessional contributions cap is accepted, the SMSF is not in breach of the SISA or SISR if the SMSF returns the excess amount within 30 days of becoming aware that the amount was received in a manner that was inconsistent with the regulations.¹⁸² The contribution is not required to be returned unless all or part of the contribution itself will cause the member to have excess non-concessional contributions for the income year.¹⁸³ The fund reports excess concessional contributions that do not meet the requirements of regulation 7.04 of the SISR as non-concessional contributions. The ATO enquires of the member whether the excess is required to be returned to the contributor. The member ordinarily has the choice to return the contributions or leave them in the fund. Concessional contributions returned to the contributor are not included in the amount of the member's non-concessional contributions.
346. With respect to the Government co-contribution, the auditor ordinarily checks that the co-contribution has been allocated to the correct member.

In-specie Contributions

347. *In-specie* contributions are contributions to a SMSF where a physical asset (e.g. a commercial property) or an intangible asset (e.g. a share, or an option) are contributed to the SMSF on behalf a member without any cash being exchanged.
348. Where contributions are accepted *in-specie*, the auditor assesses whether:
- (a) the fund's governing rules permits *in-specie* contributions; and

¹⁸² See regulation 7.04 of the SISR.

- (b) the SISA prohibitions on acquiring assets from related parties (including members) have been satisfied.
349. Once it is established that the *in-specie* contribution may be accepted, the auditor assesses whether the *in-specie* contribution is:
- (a) within the contributions cap;
 - (b) valued at market value; and
 - (c) not in breach of any other SISA prohibition.

Use of Reserves

350. Where reserves are present in an SMSF, an auditor ordinarily checks to ensure the use of the reserves by the trustees is appropriate and within the requirements of the SISA and SISR. In particular, the allocation from an investment reserve to members' accounts *should* take into consideration the return on the investments, any costs attributable to the members' accounts and the level of the reserves held by the fund.¹⁸⁴ For contributions held in any reserves, the auditor checks to ensure the amounts have been allocated to members' accounts within 28 days after the end of the month in which the contributions were received.

Investment Returns

351. An auditor ordinarily checks to ensure that any fund investment returns or losses are accurately credited or debited to relevant members' benefits in a way that is fair and reasonable.¹⁸⁵ The allocation *should* take into consideration all the members of the fund and the various kinds of benefits of each member of the fund.

Solvency

352. If the auditor, in the course of, or in connection with, performance of the audit of a SMSF, forms the opinion that the financial position of the SMSF may be, or may be about to become, unsatisfactory, the auditor is required to report to the ATO (in an ACR) and to the trustees in writing under section 130 of the SISA.
353. Under the SISR,¹⁸⁶ the financial position of a SMSF is treated as unsatisfactory if, in the auditor's opinion for an accumulation fund, either the aggregate members' benefits accounts exceed the value of the assets or the accrued members' benefits exceed the value of the assets.

Other Regulatory Information

354. In the course of conducting the audit, the auditor may obtain information regarding the SMSF, a trustee or another auditor which the auditor considers may assist the ATO in performing its functions under the SISA or SISR. This information may relate to compliance with requirements of the SISA or SISR which are not specified in the approved form auditor's report or the ACR. Under section 130A of the SISA, the auditor may report any such information to the ATO in the ACR.
355. The auditor considers whether any regulatory information reported in the ACR under section 130A needs to be included in the auditor's report on compliance, as the approved form auditor's report allows for reporting on additional sections of the SISA and SISR, and whether the information affects the compliance assurance opinion.

¹⁸⁴ See sub-regulation 5.03(1) of the SISR.

¹⁸⁵ See sub-regulation 5.03(2) of the SISR.

¹⁸⁶ See regulation 9.04 of the SISR.

Other Compliance Engagement Considerations

Service Organisations

356. If a service organisation is used by the SMSF, the auditor cannot merely rely on the type 2 report as evidence of the SMSF's compliance with the SISA and SISR (refer paragraph 25). The auditor performs additional procedures necessary to ensure the SMSF's compliance with the SISA and SISR, for example, reviewing cash transaction accounts to ensure compliance with the borrowing requirements of SIS. To address the other compliance requirements, the auditor requests the service organisation to confirm that the compliance obligations have been met, for example:
- (a) Confirmation that the assets are held by the fund trustee, in trust for the fund;
 - (b) Confirmation that none of the investments were acquired from a related party, or if acquired from a related party, that the acquisition was done at market value;
 - (c) Confirmation that, to the knowledge of the service provider, none of the investments held is pledged as security.
357. It may be impossible or impractical to obtain sufficient appropriate audit evidence of compliance with respect to the services provided, in which case either the auditor qualifies their opinion on the basis of a limitation of scope or issues a disclaimer of opinion.

Subsequent Events

358. The auditor considers the effect of subsequent events on the auditor's compliance report occurring up to the date the report is signed. If a material compliance breach has occurred after year end and the breach indicates a systemic issue with potential to impact the reporting period, it may result in modifications to the compliance report.

Reporting Compliance Breaches

359. In determining whether to report potential or actual contraventions (breaches) identified during the compliance engagement, the auditor applies different criteria in relation to their reporting obligations to:
- (a) a trustee in the management letter;
 - (b) a trustee under SISA sections 129 or 130¹⁸⁷;
 - (c) the ATO, in an ACR, under SISA sections 129 or 130; and
 - (d) the trustees in the auditor's compliance report.
360. The auditor reports to a trustee in writing under SISA section 129 any reportable contraventions of the SISA or SISR, which it is likely may have occurred, may be occurring or may occur, regardless of the materiality of those contraventions. The auditor also reports to a trustee under section 130 if the financial position of the SMSF may be, or may be about to become, unsatisfactory.
361. The auditor reports events which may lead, or have led, to one or more contraventions of the SISA or SISR to the ATO in an ACR where they are contraventions of sections or regulations specified in the ACR and, either:

¹⁸⁷ Where an auditor forms an opinion that it is likely that a contravention may have occurred, may be occurring or may occur, the reporting criteria and the list of reportable sections and regulations that an auditor applies to determine whether a report to the ATO is required, are listed in the ACR instructions (NAT 11299) www.ato.gov.au/Forms.

- (a) those contraventions meet the reporting criteria, which comprise seven tests specified in the ACR instructions;¹⁸⁸ 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.¹⁸⁹

362. ASAE 3100 requires the auditor's report on compliance to be modified if, in the auditor's judgement, material non-compliance with a requirement being reported on may exist. Consequently, the auditor determines whether any potential or actual contraventions of the SISA or SISR identified during the audit are:
- (a) contraventions of sections of the SISA or SISR specified in the approved form auditor's report; and
 - (b) material to the SMSF.
363. 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 269.
364. Even if a contravention is reported in an ACR, it does not necessarily result in a modification to the auditor's compliance report. The auditor, nevertheless, considers the contraventions which meet the reporting criteria specified in the ACR instructions, and uses professional judgement in determining the impact, if any, on the auditor's compliance report.
365. The circumstances which may result in a modification to the auditor's compliance report are where:
- (a) a limitation of scope of the auditor's work exists, due either to circumstances or a trustee imposing a restriction, which prevents the auditor from obtaining the evidence required, in which case the auditor expresses a qualified opinion or a disclaimer of opinion; or
 - (b) the SMSF did not comply in all material respects with the requirements included in the approved form, in which case the auditor expresses a qualified or adverse opinion.
366. A qualified opinion is expressed as being "except for" the matter to which the qualification relates when that matter is not as material or pervasive as to require an adverse or disclaimer of opinion.

¹⁸⁸ The ACR instructions (NAT 11299) and ACR (NAT 11239) are approved forms and can be obtained through the ATO's website at www.ato.gov.au/Forms. Additionally, eSAT software is available free of charge from the tax office to assist in completing the compliance assurance engagement and reporting any ACRs appropriately to the ATO. See www.ato.gov.au/eSAT for further details.

¹⁸⁹ See "Solvency" at paras 363-364.

Appendix 1

(Ref: Para.56)

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

The following example audit engagement letter is for use as a guide only, in conjunction with the considerations described in GS 009, and may need to be modified according to the individual requirements and circumstances of each engagement.

To [the Trustees/Directors of the Corporate Trustee] of [name of SMSF]

[The Objective and Scope of the Audit]

You have requested that we audit the [name of SMSF]'s (the Fund):

1. financial report, which comprises the [statement of financial position/statement of net assets] as at [date] and the [operating statement/statement of changes in net assets] for the [period] then ended and the notes to the financial statements; and
2. compliance during the same period with the requirements of the Superannuation Industry (Supervision) Act 1993 (SISA) and SIS Regulations (SISR) specified in the approved form auditor's report as issued by the ATO, which are sections 17A, 35AE, 35B, 35C(2), 52(2)(e), 62, 65, 66, 67, 67A, 67B, 82-85, 103, 104, 104A, 105, 109 and 126K of the SISA and regulations 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8.02B, 13.12, 13.13, 13.14 and 13.18AA of the SISR.¹⁹⁰

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

[The Responsibilities of the Auditor]

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

The annual audit of the financial reports and records of the Fund must be carried out during and after the end of each year of income. In accordance with section 35C of the SISA, we are required to provide to the trustees of the Fund an auditor's report in the approved form within the prescribed time as set out in the SISR, 28 days after the trustees have provided all documents relevant to the preparation of the auditor's report.

Financial Audit

A financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. A financial audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by the

¹⁹⁰ These sections and regulations need to be amended if there are any changes to the sections and regulations in the approved form auditor's report.

trustees, as well as evaluating the overall presentation of the financial report. Due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In making our risk assessments, we consider internal controls relevant to the Fund's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal controls. However, we expect to provide you with a separate letter concerning any significant deficiencies in the Fund's system of accounting and internal controls that come to our attention during the audit of the financial report. This will be in the form of a trustee letter.

Compliance Engagement

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

Our compliance engagement with respect to investments includes determining whether the investments are made for the sole purpose of funding members' retirement, death or disability benefits and whether you have an investment strategy for the Fund, which has been reviewed regularly and gives due consideration to risk, return, liquidity, diversification and the insurance needs of member's managers. Our procedures will include testing whether the investments are made for the allowable purposes in accordance with the investment strategy, but not for the purpose of assessing the appropriateness of those investments to the members.

[The Responsibilities of the Trustees]

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

Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report and for determining that the accounting policies used are consistent with the financial reporting requirements of the SMSF's governing rules, comply with the requirements of SISA and SISR and are appropriate to meet the needs of the members.¹⁹¹ This responsibility includes:

- Establishing and maintaining controls relevant to the preparation of a financial report that is free from misstatement, whether due to fraud or error. The system of accounting and internal control should be adequate in ensuring that all transactions are recorded and that the recorded transactions are valid, accurate, authorised, properly classified and promptly recorded, so as to facilitate the preparation of reliable financial information. This responsibility to maintain adequate internal controls also extends to the Fund's compliance with SIS including any Circulars and Guidelines issued by a relevant regulator to the extent applicable. The internal controls should be sufficient to prevent and/or detect material non-compliance with such legislative requirements.
- Selecting and applying appropriate accounting policies.
- Making accounting estimates that are reasonable in the circumstances.
- Making available to us all the books of the Fund, including any registers and general documents, minutes and other relevant papers of all Trustee meetings and giving us any information, explanations and assistance we require for the purposes of our audit. Section 35C(2) of SIS requires that Trustees *must* give to the auditor any document that the auditor requests in writing within 14 days of the request.

¹⁹¹ If the SMSF is a reporting entity this sentence requires amendment to read: "Our auditor's report will explain that the trustees are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)."

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

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

[Independence]

We confirm that, to the best of our knowledge and belief, the engagement team meets the current independence requirements of the SISA and SISR including APES 110 *Code of Ethics for Professional Accountants* in relation to the audit of the Fund. In conducting our financial audit and compliance engagement, should we become aware that we have contravened the independence requirements, we *shall* notify you on a timely basis.

[Report on Matters Identified]

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

You should not assume that any matters reported to you, or that a report that there are no matters to be communicated, indicates that there are no additional matters, or matters that you should be aware of in meeting your responsibilities. The completed audit report may be provided to you as a signed hard copy or a signed electronic version.¹⁹²

[Compliance Program]

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

[Limitation of liability]¹⁹³

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.]

¹⁹² The auditor should retain an original hard copy in the working papers.

¹⁹³ Applicable to participants in a limitation of liability scheme. Accounting Professional and Ethical Standard APES 305 *Terms of Engagement*, issued by the Accounting Professional & Ethical Standards Board in December 2007, which is applicable to members of the professional accounting bodies in Australia in public practice, requires participants in a limitation of liability scheme under Professional Services Legislation to advise the client that the member's liability may be limited under the scheme.

[Other]

This letter will be effective for future years unless we advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our financial audit and compliance engagement of the [name of SMSF].

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

Yours faithfully,

.....

Name and Title

Date

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

.....

Name and Title

Date

Appendix 2

(Ref: Para. 118)

EXAMPLE OF A SELF-MANAGED SUPERANNUATION FUND TRUSTEE REPRESENTATION LETTER

This illustrative letter is provided as an example only and may need to be modified according to the individual requirements and circumstances of each engagement. Representations by the trustees will vary between SMSFs and from one period to the next. In the event that the trustees do not provide requested written representations the auditor should make reference to ASA 580 in determining the effect on the audit.

[SMSF letterhead]

Date

[Addressee - Auditor]

Dear [Sir/Madam],

Trustee Representation Letter

This representation letter is provided in connection with your audit of the financial report of the [SMSF Name] (the Fund) and the Fund's compliance with the Superannuation Industry (Supervision) Act 1993 (SISA) and SIS Regulations (SISR), for the [period] ended [date], for the purpose of you expressing an opinion as to whether the financial report is, in all material respects, presented fairly in accordance with the accounting policies adopted by the Fund and the Fund complied, in all material respects, with the relevant requirements of SISA and SISR.

The trustees have determined that the Fund is not a reporting entity for the [period] ended [date] and that the requirement to apply Australian Accounting Standards and other mandatory reporting requirements do not apply to the Fund.¹⁹⁴ Accordingly, the financial report prepared is a special purpose financial report which is for distribution to members of the Fund and to satisfy the requirements of the SISA and SISR. We acknowledge our responsibility for ensuring that the financial report is in accordance with the accounting policies as selected by ourselves and requirements of SISA and SISR, and confirm that the financial report is free of material misstatements, including omissions.

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

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

1. Sole purpose test

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

2. Trustees are not disqualified

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

¹⁹⁴ If the SMSF is a reporting entity then it will be required to prepare a general purpose financial report in accordance with the Australian Accounting Standards and this paragraph will need to be adapted accordingly.

3. Fund's governing rules, trustees' responsibilities and Fund conduct

The Fund meets the definition of a self-managed superannuation Fund under SISA, including that no member is an employee of another member, unless they are relatives and no trustee [or director of the corporate trustee] receives any remuneration for any duties or services performed by the trustee [or director] in relation to the Fund.

The Fund has been conducted in accordance with its governing rules at all times during the year and there were no amendments to the governing rules during the year, except as notified to you.

The trustees have complied with all aspects of the trustee requirements of the SISA and SISR.

The trustees are not subject to any contract or obligation which would prevent or hinder the trustees in properly executing their functions and powers.

The Fund has been conducted in accordance with SISA, SISR and the governing rules of the Fund.

The Fund has complied with the requirements of the SISA and SISR specified in the approved form auditor's report as issued by the ATO, which are sections 17A, 35AE, 35B, 35C(2), 52(2)(e), 62, 65, 66, 67, 67A, 67B, 82-85, 103, 104, 104A, 105, 109 and 126K of the SISA and regulations 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8.02B, 13.12, 13.13, 13.14 and 13.18AA of the SISR.

All contributions accepted and benefits paid have been in accordance with the governing rules of the Fund and relevant provisions of the SISA and SISR.

There have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial report [or we have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report and the Auditor's/actuary contravention report].

4. Investment strategy

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

5. Accounting policies

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

6. Fund books and records

All transactions have been recorded in the accounting records and are reflected in the financial report. We have made available to you all financial records and related data, other information, explanations and assistance necessary for the conduct of the audit; and minutes of all meetings of the trustees.

We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud. We have established and maintained an adequate internal control structure to facilitate the preparation of reliable financial reports, and adequate financial records have been maintained. There are no material transactions that have not been properly recorded in the accounting records underlying the financial report.

We have disclosed to you the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud. We have disclosed to you all information in

relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves the trustees or others.

In instances where the Fund uses a custodian, we confirm we have not been advised of any fraud, non-compliance with laws and regulations or uncorrected misstatements that would affect the financial report of the fund.

Information retention obligations have been complied with, including:

- accounting records and financial reports are being kept for 5 years,
- minutes and records of trustees' [or directors of the corporate trustee] meetings [or for sole trustee: decisions] are being kept for 10 years;
- records of trustees' [or directors of the corporate trustee] changes and trustees' consents are being kept for at least 10 years;
- copies of all member or beneficiary reports are being kept for 10 years; and
- trustee declarations in the approved form have been signed and are being kept for each trustee appointed after 30 June 2007.

7. Asset form and valuation

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

Investments are carried in the books at market value. Such amounts are considered reasonable in light of present circumstances.

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

There are no commitments, fixed or contingent, for the purchase or sale of long term investments other than those disclosed in the financial report.

8. Safeguarding Assets

We have considered the importance of safeguarding the assets of the fund, and we confirm we have the following procedures in place to achieve this:

- Authorised signatories on bank and investment accounts are regularly reviewed and considered appropriate; and
- Tangible assets are, where appropriate, adequately insured and appropriately stored.

9. Significant assumptions

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

10. Uncorrected misstatements

We believe the effects of those uncorrected financial report misstatements aggregated by the auditor during the audit are immaterial, both individually and in aggregate, to the financial report taken as a whole. A summary of such items is attached.

11. Ownership and pledging of assets

The Fund has satisfactory title to all assets appearing in the statement of [financial position/net assets]. All investments are registered in the name of the Fund, where possible, and are in the custody of the respective manager/trustee.

There are no liens or encumbrances on any assets or benefits and no assets, benefits or interests in the Fund have been pledged or assigned to secure liabilities of others.

All assets of the Fund are held separately from the assets of the members, employers and the trustees. All assets are acquired, maintained and disposed of on an arm's length basis and appropriate action is taken to protect the assets of the Fund.

12. Related parties

We have disclosed to you the identity of the Fund's related parties and all related party transactions and relationships. Related party transactions and related amounts receivable have been properly recorded or disclosed in the financial report. Acquisitions from, loans to, leasing of assets to and investments in related parties has not exceeded the in-house asset restrictions in the SISA at the time of the investment, acquisition or at year end.

The Fund has not made any loans or provided financial assistance to members of the Fund or their relatives.

13. Borrowings

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

14. Subsequent events

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

15. Outstanding legal action

We confirm you have been advised of all significant legal matters, and that all known actual or possible litigation and claims have been adequately accounted for, and been appropriately disclosed in the financial report.

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

16. Going Concern

We confirm we have no knowledge of any events or conditions that would cast significant doubt on the fund's ability to continue as a going concern.

17. Additional matters

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

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

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

Draft

Appendix 3

(Ref: Para.65)

SELF-MANAGED SUPERANNUATION FUND GOVERNING RULES AUDIT PLANNING CHECKLIST

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

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

Ref	Questions to be addressed in examining the trust deed
A	ESTABLISHMENT AND EXECUTION
A.1	Is the date of establishment of the SMSF recorded?
A.2	Has the trust deed been: • Properly executed? • Signed by all the members who are individual trustees? • Witnessed? • Dated? • Stamped (if required)?
A.3	Do the rules incorporate the SISA, SISR and applicable taxation rules?
A.4	Does the deed outline the core and ancillary purposes of the SMSF?
A.5	Does the deed require an irrevocable election to be made to be a regulated superannuation fund or a fund subject to the SISA and SISR?
A.6	Does the deed have a clause which deems the appropriate legislation into or out of the deed to allow the SMSF to remain complying?
B	AMENDMENTS TO THE DEED
B.1	Does the deed allow amendments?
B.2	Has the trust deed been amended since the last audit? If so: • Has the deed amendment been properly executed? • Is confirmation of the deed's compliance with SISA and SISR required from the solicitor or other party involved in the amendment? • Is the amendment signed off by the current trustees? • Could the amendments impact the audit?
C	TRUSTEE AND MEMBERSHIP
C.1	Does the trust deed specify who may be a trustee? Either: • Two or more individual trustees; or • A trustee company.
C.2	Does the deed specifically identify the trustee as either individuals or a corporate entity?
C.3	Are all individual trustees or directors of the trustee company required to be members?
C.4	Does the deed permit members to be • A non-working spouse? • A retired person? • A child?

Ref	Questions to be addressed in examining the trust deed
C.5	Does the deed limit the maximum number of members to 4 members?
C.6	Is membership open to anyone else?
C.7	Do the members of the SMSF meet the definitions? - No member of the SMSF is an employee of another member, unless related. - No trustee receives remuneration for their services to the SMSF in their capacity as trustee.
C.8	Does the trust deed contain the trustee covenants in s.52B of the SISA?
D	AUDIT AND FINANCIAL REPORTS
D.1	Does the trust deed require the appointment of an approved SMSF auditor?
D.2	Does the trust deed require the trustees to prepare a financial report annually and for it to be audited?
D.3	Does the trust deed require the trustees to keep the minutes and records of trustee decisions for at least 10 years and accounting records and signed financial reports for at least 5 years?
E	CONTRIBUTIONS
E.1	Does the deed allow: - Concessional contributions, including: - Employer contributions, including contributions made pursuant to a salary sacrifice agreement? - Member contributions for which a tax deduction is claimed? - Non-concessional contributions, including: - Member contributions for which no tax deduction is claimed? - Eligible spouse contributions? - Contributions in respect of minors? - Rollovers and transfers in? - Government co-contributions? - Contribution splitting to a spouse? - Contributions by members who are under 65 and not working? - Contributions by members who are working part-time and are over 65 and under 75? - Mandated contributions to be accepted at any age? - Contribution splitting arrangements pursuant to family law matters?
E.2	Does the deed allow for <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?
F	BENEFIT PAYMENTS
F.1	Does the SMSF require compulsory cashing of the members balance at a specific age?
F.2	Does the SMSF require a lump sum benefit to be paid in lieu of a pension?
G	PENSIONS
G.1	Does the deed expressly allow for payment of pensions by the SMSF, including*: - Account based pensions? - Transition to retirement income stream? - Allocated pensions? - Term allocated or market linked or growth pensions? - Non-complying lifetime or fixed term pensions? * This list includes a number of pensions which may no longer be permitted but if already established may continue being paid.
G.2	Does the deed allow for commutation of a pension?
G.3	Does the deed allow for the segregation of assets to meet pension requirements?
G.4	Does the deed make reference to nominated beneficiaries?

Ref	Questions to be addressed in examining the trust deed
H	RESERVES (If applicable)
H.1	Does the deed provide rules in relation to the establishment, maintenance and operation of SMSF Reserves?
H.2	Does the deed require different or parallel investment strategies for each reserve account?
I.	INVESTMENTS
I.1	Does the deed provide powers to the trustees to invest the assets of the SMSF?
I.2	Does the deed specify specific assets/asset classes that the SMSF may invest in?
I.3	Does the deed prevent investments in, or loans to, related parties?
I.4	Does the deed require an investment strategy to be formulated, regularly reviewed, and given effect?
I.5	Does the deed require the investment strategy to consider if insurance is relevant to the members of the fund?
J	BORROWINGS
J.1	Does the deed prohibit borrowings?
J.2	Does the deed permit borrowing in specific circumstances, including: • Temporary borrowings which are required for the payment of member benefits, short term settlement of securities or superannuation contributions surcharges (no longer levied)? • Borrowings for limited recourse borrowing arrangements?
K	WINDING-UP
K.1	Does the deed provide for the winding-up of the SMSF?

Appendix 4

(Ref: Para.70)

ILLUSTRATIVE FINANCIAL AUDIT PROCEDURES FOR A SELF-MANAGED SUPERANNUATION FUND

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

The procedures detailed are designed to address the financial audit of a SMSF, however, in some instances, where compliance matters are integral to the financial audit, these may also be included. For procedures in conducting a compliance engagement, a compliance checklist may be used. Standardised checklists are available from a number of professional organisations. Auditors should verify the completeness of any compliance checklist they use to ensure it covers all relevant provisions¹⁹⁵.

Ref	Audit Procedure
A	ENGAGEMENT ACCEPTANCE
A.1	Confirm that the appropriate procedures relating to new and ongoing engagements have been completed prior to commencing the audit, including: • Clearance from previous auditor on new engagements. • The firm has the appropriate resources and expertise to complete the engagement in the required time. • Confirmation of independence of the engagement partner and each audit team member.
A.2	Confirm that an engagement letter, that it is relevant to the scope of this audit, has been issued and will be signed by the trustee prior to the completion of the audit.
A.3	A client acceptance or retention assessment has been undertaken.
B	AUDIT PLANNING
B.1	Obtain a copy of the following documents before commencing the audit: • Fund's governing rules and amendments. • Signed audited financial reports for the prior year, including the signed prior year's auditor's report. • Minutes of trustee meetings.
B.2	Prepare an audit strategy and audit plan for this engagement addressing, as a minimum, the following matters: • Client profile, audit and reporting arrangements. • Audit approach - Nature: ○ Controls testing, including use of auditor's report available for key service organisations. ○ Substantive testing – inspection, observation, enquiry, confirmation, recalculation, re-performance and analytical review. - Timing. - Extent – fully substantive, sampling, analytical review or representations. - Resources, including extent of direction and supervision. Consider interviewing the trustees and/or their advisors, prior to and during the development of the audit plan.

¹⁹⁵ Auditor guidance and information is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors> including the ATO's electronic superannuation audit tool (eSAT), for use in conducting the compliance engagement.

Ref	Audit Procedure
B.3	Complete a risk assessment and determine preliminary materiality levels, covering: • Risk assessment - Current period events. - Fraud risks. - Control environment. - Computer/IT environment. • Materiality
B.4	<u>Regulatory matters</u> • Before commencing the audit, confirm that the SMSF is an ATO regulated self-managed superannuation fund on Super Look Up (www.superlookup.gov.au).
C	FINANCIAL REPORT AND DISCLOSURE
C.1	<u>Clerical accuracy and note references</u> Check that: • The financial report includes an operating statement and statement of financial position or their equivalent and notes to the financial statements. • The table of contents or index agrees to the financial report, including the page numbers and content. • The footnotes refer to the notes to the financial statements and do not mention compilation reports or “unaudited” information. • The audit report is situated appropriately in the financial report so as not to suggest that members’ statements or other information have been audited. • Prior period comparatives agree to those from the prior year signed financial report. • Additions in the financial report are correct. • The notes to the financial statements cross-reference correctly to and from the operating statement and statement of financial position.
C.2	<u>Opening Balances</u> - new engagements • Review the most recent audited financial report, and the predecessor auditor’s report for any information relevant to opening balances. • Determine whether the opening balances reflect the application of the described accounting policies. • In order to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that may materially affect the current period’s financial report: - Consider reviewing the previous auditors’ audit work papers to obtain evidence regarding opening balances. - Evaluate whether audit procedures in the current period provide evidence in relation to opening balances. - Consider performing specific audit procedures to obtain evidence regarding opening balances. • Consider the impact of the prior periods modification (if applicable) to the opinion on the current period’s financial report. • Consider the sufficiency and appropriateness of audit evidence obtained on opening balances in relation to the current periods financial report. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor should consider the impact on the current period’s auditor’s report.
C.3	<u>Accounting policies</u> • If the SMSF is not a reporting entity, check that the accounting policy notes reflect this, obtain an understanding of the relevant accounting policies the trustee has used to prepare the financial report and check that the accounting policy notes adequately explain the policies adopted. • Determine whether the accounting policies in relation to assets, contributions, member entitlements and reserves meet the requirements of the SISA and SISR. • Determine if there are any changes in the accounting policies applied in prior periods, and if so, check that these have been appropriately disclosed in the accounting policy notes.
D	UNDERLYING ACCOUNTING RECORDS
D.1	Obtain a copy of the SMSF’s general ledger and agree the general ledger to the financial report and note any discrepancies.
D.2	Review the general ledger and identify material journal entries and other adjustments and review these to ensure that they are reasonable and consistent with the financial report.

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Ref	Audit Procedure
E	CASH
E.1	Confirm the fund's bank accounts are in the name of the trustee on behalf of the fund by reviewing bank statements for each bank account.
E.2	Review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
E.3	Test large and unusual payments and receipts to ensure these are <i>bona fide</i> and correctly recorded and authorised.
E.4	Review bank reconciliation at year end: - Follow up and investigate large, unusual or recurring reconciling items. - Follow up uncleared deposits and unpresented cheques ensuring correct cut off. - Trace unpresented cheques to bank statement subsequent to year end.
E.5	Where banking accounts are significant to the audit you should gain sufficient appropriate audit evidence, that may include: - Confirming the bank balance by way of a bank confirmation. - Obtaining login details for on-line banking facilities in order to confirm balances at year-end. - Sighting original bank statements and subsequent redemptions for term deposits. - Seeking explanations for any material differences. - Checking for any debit balances, undisclosed liabilities and security for borrowings.
E.6	Where the fund had undeposited cheques recorded as "cash on hand" at period end, confirm these amounts were banked after period end. Obtain documentary evidence or confirmation from the trustee that the cash was received by the SMSF prior to and was deposited within a few days of period end.
F	INVESTMENTS
F.1	<u>General</u> An auditor should use professional judgement to determine what evidence is appropriate and the size of the sample to be verified for each investment.
F.2	<u>Foreign Currency Transactions</u> Check to ensure that all investments are recorded in Australian dollars and that if foreign currency transactions occur they are converted at the appropriate currency rates and accounted for correctly.
F.3	<u>Investor Directed Portfolio Services (WRAP accounts)</u> - Obtain the relevant auditor's report issued under ASIC Class Orders CO 13/763 or CO 13/762. - Confirm that the investments are held by the custodian (IDPS) and are identified as belonging to the SMSF. - Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B). - Check that there is no double counting of assets such as the SMSF bank account or distributions receivable.
F.4	<u>Fixed Interest Securities (including term deposits)</u> - Complete the following for each fixed interest security including debentures and bonds held by the SMSF at the end of the period: - Sight original certificates or obtain a bank confirmation to confirm correct ownership, date of issue of the certificates and date of maturity of the investment. - Agree the value of the fixed interest securities at period end. - For bonds, either confirm the net market value at period end with the originator of the security or with published market prices. - For unlisted non-transferable debentures, agree the net market value with the face value. - Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that the investment is an asset of the Fund. - Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes, and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B).
F.5	<u>Property</u> Complete property searches for all real estate investments owned by the SMSF.

Ref	Audit Procedure
	• Check that each property is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. This may involve viewing the contract of sale when the property was first acquired, a declaration of trust or an acknowledgement of trust from the registered owner. • Check that there are no registered encumbrances unless they are in relation to limited recourse borrowing arrangements permitted by Sections 67A and 67B of the SISA. If there are limited recourse borrowing arrangements – refer to F10 of these Illustrative Procedures. • Review the accounting policies to determine how the trustee has valued each property. Fund assets including property investments are required by Regulation 8.02B of the SISR to be carried at market value determined in line with ATO <i>Valuation guidelines for self-managed superannuation funds</i>. • Review the method used to value the property, including if the trustees have relied on an independent market appraisal or valuation, obtain a copy of this and confirm that: - The value is correctly reflected in the financial report. - The valuation/appraisal refers to the correct property. - The valuation was based on reasonable assumptions and is current. - The valuation does not take into account redemption costs, other than any GST payable on sale which should be removed from the value. - If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal. - That the method used to value the property is consistent with that disclosed in the accounting policy notes and is in line with ATO requirements and the SISR including the requirement for assets to be valued at market value (SISR regulation 8.02B). - Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith, using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines. • Where the property includes “buildings and other fixtures” verify existence of adequate insurance and, where these are being depreciated, ensure that the depreciation adjustments are correctly and appropriately reflected as part of the market value of the investment.
F.6	<u>Listed Securities</u> Review the number of listed securities including shares, units, options, warrants and futures held by the SMSF at the end of the period. If the SMSF has units in unit trusts, obtain a listing of these and identify any unit trusts that are listed on the Australian Stock Exchange, those that are widely held trusts and those that are closely held trusts. • Check that each listed security is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties as required by regulation 4.09(A)(2) of the SISR. • Agree the number of securities held at period end to the share registry or other appropriate sources. • Confirm the closing market price of the securities at the period end against an independent source. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). • If the SMSF invested or redeemed listed securities during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.
F.7	<u>Widely Held Unlisted Unit Trusts and Managed Funds</u> These are arm’s length, professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices. • Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: - The number of securities held at period end. - That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF, and is held separate from the assets of the trustee, employers and other related parties as required by regulation 4.09(A)(2) of the SISR. - The method used to determine the market value of the units at the period end is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported. • If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.

Ref	Audit Procedure
F.8	<u>Unlisted Closely Held Unit Trusts</u> These can be related trusts that may require additional audit procedures to confirm ownership, value and compliance with the SISR and SISA. • Sight the original unit certificates, a confirmation from the unit trust or similar documentation and: - Agree the number of units held at period end, and that - each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties • Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value and test the value by: - Obtaining documentary evidence to support the valuation. - Make enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units and any other factors that could impact the value of the investment. - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Where the trustee has undertaken the valuation, assess whether that the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines. If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.
F.9	<u>Pooled Superannuation Trusts and Life Insurance Policies</u> • Sight original statements issued by the product provider, or obtain a confirmation directly from the product provider at period end. • Confirm that the investment is in the correct name. • Confirm the number of units and value of the investment at period end. • Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR including the requirement for assets to be valued at marked value (SISR regulation 8.02B).
F.10	<u>Assets subject to Limited Recourse Borrowing/ Arrangements</u> • If the asset is subject to a limited recourse borrowing arrangement, determine how the investment has been valued (refer above) and complete the following audit procedures: - Confirm the borrowing has either been used to acquire a single asset or, if the borrowing has been used to acquire a collection of assets, confirm each asset in the collection has an identical market value and that each asset in the collection is identical. - Confirm that the asset is held in trust for the SMSF - Confirm the borrowing has only been used to maintain and repair the asset (not improve the asset) or applied to refinance the borrowing. - If the asset was replaced, confirm the following: ○ A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or ○ A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or ○ Is as a result of a corporate action - Confirm that the SMSF has an option to acquire the legal ownership of the asset on payment of the final instalment. - Confirm that the lenders rights are limited in recourse against the fund trustee, to that asset. - Review an original statement or confirmation letter from the lender and confirm the amount of the debt, amount owing at balance date, interest charged during year, amount of borrowing costs incurred in the period and the value of any prepaid expense at the end of the period and that these have been correctly reflected in the financial report. • Consider if any additional disclosures are required so that the users of the financial report understand the limited recourse borrowing arrangement. Review the clerical and factual accuracy of any additional disclosure to ensure it appropriately reflects the position of the arrangement.
F.11	<u>Collectables and Personal Use Assets</u>

Ref	Audit Procedure
	- If the asset is a type that does not have any form of title, obtain evidence to confirm existence and ownership including: - Minutes or resolution relating to the acquisition of the asset. - Invoice and evidence of payment from the SMSF for the purchase of the asset. - Sighting asset. - Insurance policy or premium payment for insurance of the asset. - Lease documents, if leased to another party. - Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value and test the value by: - Obtaining documentary evidence to support the valuation. - Make enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units and any other factors that could impact the value of the investment. - Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR including the requirement for assets to be valued at market value (regulation 8.02B of the SISR). - Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.
G	RECEIVABLES AND PREPAYMENTS
G.1	If the SMSF uses accrual accounting, review each asset and determine if the SMSF was entitled to receive income for the year and if this had been received or accrued at balance date.
G.2	Obtain details of other receivables and ensure that they are correctly accounted for.
G.3	Verify that the receivable is current and has been received by the SMSF subsequent to period end or that it will be received by the SMSF.
G.4	If the amount is receivable from a related party, check that the disclosures are appropriate, and review this further as part of your compliance audit.
G.5	If the fund pays insurance or other expenses, ensure that these have been applied in the period to which they relate and prepaid items have been recorded in accordance with the accounting policies.
H	LIABILITIES
H.1	Review the value at which liabilities have been disclosed in the financial report and vouch to supporting documentation. Review the documentation and assess whether the amount and nature of the liabilities appears reasonable.
H.2	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
H.3	Review ageing of liabilities/payables and comment on any delay in payment.
H.4	Vouch prior year payables and accruals to payments during the year.
H.5	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
H.6	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
H.7	If the fund has a limited recourse borrowing arrangement ensure that the liability is accurately and appropriately recorded in accordance with the arrangement (refer suggested procedures at F10 above).
I	MEMBER'S ENTITLEMENTS / ACCRUED BENEFITS
I.1	- Obtain listing of all members account balances and check that the total agrees with accrued benefits in the financial report. - Review the allocation of revenue, expenses, income tax, excess contributions tax and other items to members to ensure that they have been correctly apportioned. - Ensure that the disclosures in the financial report are appropriate and consistent with the member's entitlements.
J	RESERVES

Ref	Audit Procedure
J.1	Review the SMSF's documentation including the fund's governing rules and trustee minutes to ensure that the reserve is permitted and recorded in accordance with trustee policy.
J.2	Review the movements in the reserve during the period to ensure that they are clerically accurate and in accordance with the trustee's policy.
J.3	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
K	INVESTMENT AND OTHER REVENUE
K.1	<u>Analytical Review</u> - Calculate the SMSF's investment return as a percentage based on the net income as a proportion of average assets held by the SMSF over the period. - Compare this to the prior year as well as average market performance (for example, super ratings) for the period of the audit and confirm that the return is reasonable and not under or overstated.
K.2	<u>Interest Income</u> - Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received. - For bank interest, analytical review against ROI on the bank audit confirmations
K.3	<u>Changes in Market Value</u> - Test the changes in market value calculations including realised changes in market value to ensure that they are correct. - Analytical review. - Tying into investments, for substantive audits.
K.4	<u>Dividends</u> - Vouch dividends received to dividend slips, published dividend rates or registry details. - Confirm the accounting treatment of franking credits (either on a net or gross basis) and ascertain accounting treatment is consistent with the details disclosed in the accounting policy notes.
K.5	<u>Trust Distributions</u> Vouch distributions received and receivable to distribution advices, ensuring that the discounted capital gains and other income have been correctly classified for tax purposes.
K.6	<u>Rental Income</u> - Vouch rental income against agent's statements or other records, as appropriate. - Review the disclosure of rental expenses in relation to the disclosure and distribution of net investment revenue to ensure it meets the requirements of the governing rules, the needs of members and the requirements of the SISR. - Analytical review against rental agreement and period of tenancy. - Check any rent reviews in the lease agreements during the period have been correctly applied.
K.7	<u>Other Income</u> If the SMSF receives other forms of income ensure that these are correctly calculated, earned and disclosed.
L	CONTRIBUTIONS AND TRANSFERS IN
L.1	<u>Concessional contributions</u> - Review the amounts, frequency and pattern of contributions and if you suspect contributions may be being diverted from the fund seek confirmation of the contribution directly from the employer. - Where the contributions are from a related employer, obtain the employer's trial balance and or general ledger to verify contributions. - Test that contributions have been allocated to the member for whom they were remitted. - For concessional contributions made by the member, obtain a copy of the section 290-170 Notice of Intention to Deduct and confirm the details are consistent with the accounting treatment. - For members > 65, ensure that the work test has been met and the contribution was permitted. - Ensure no-TFN contributions were received.
L.2	Where co-contributions have been received test that they have been allocated to the member for whom they were remitted.

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Ref	Audit Procedure
L.3	- If transfers in have been received, obtain the roll-over documentation and ensure that the transferee is a complying superannuation fund and correctly recorded as taxed or untaxed. - For members > 65, ensure that the work test has been met and that contributions are employer mandated contributions. - Ensure that all contributions not complying with Regulation 7.04 are refunded within 30 days.
L.4	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
L.5	Review expenses and other items that may give rise to a contribution as outlined in ATO Rulings and ensure that these are correctly accounted for as contributions.
M	EXPENSES
M.1	Perform an analytical review of expenses and assess for reasonableness against your knowledge of the SMSF and in comparison to the prior year's expenditure.
M.2	Vouch material items to invoices, ensuring the expenses are attributable to the SMSF or are apportioned correctly.
M.3	Agree administration fees to the agreement with the administrator.
M.4	Agree management fees to the agreement with the investment manager.
N	LUMP SUMS AND PENSIONS PAID
N.1	- Obtain a listing of all benefits paid and reconcile benefits paid to prior year member statement, adjusted for current period transactions. - For each benefit paid, review documentation including minutes or other documents confirming the commencement of a pension, correspondence to the members and rollover institutions and ensure that the benefit was duly authorised. - Confirm that each benefit was paid in accordance with the terms of the fund's governing rules. - For death benefits, confirm if the benefit was paid in accordance with the fund's governing rules and, if applicable, a binding death benefit nomination. - For a total and permanent disability benefit, 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. - Ensure that pensions paid are within the minimum and maximum (if a transition to retirement pension) thresholds and that pensions are paid at least once annually, and that a series of payments have been paid over the life of the pension account. - Investigate liabilities at year end to ensure that pensions have been paid, and not just accrued.
O	TAX
O.1	Review tax work papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies, including: - Member contributions have been treated correctly as non-assessable unless the SMSF received a notice in accordance with section 290-170 of the ITAA 1997 stating that the member contribution is assessable. - Exempt Current Pension Income (ECPI) from assets used to pay current pensions is treated as non-assessable and an actuarial certificate has been obtained to confirm this if the fund has both accumulation and unsegregated pension assets. - ECPI has been correctly applied to income but not contributions. - If the SMSF derives ECPI, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with Tax Ruling TR 93/17 and section 8-1 of the ITAA 1997. Cash bonuses (not rebates) received on life insurance policies are not included as taxable income. - Franking credits from dividends are correctly adjusted. - Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly. - Foreign tax credits are correctly adjusted, note that foreign tax credits may only be claimed to the extent of tax payable on foreign income. - CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount.

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Ref	Audit Procedure
	- Ensure CGT cost base adjustments required by section 104-70 of the ITAA 1997 (relating to differences between accounting and tax distributions from trusts) have been recorded and adjusted correctly. - Non arm's length income has been correctly identified and tax applied at the appropriate rate.
O.2	Where deferred tax is reported by the fund, complete the following procedures: - Check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report including: - Deferred tax assets arising from unrealised losses are after discounting. - Deferred tax assets arising from tax losses have only been brought to account where the trustee is confident that these will be recoverable in the future. - Proving the deferred tax assets and liabilities represent the tax effect of timing differences.
O.3	Confirm that tax has been calculated for ordinary income at 15%, unless the SMSF has received a notice advising it is non-complying for tax purposes. Ensure non-arm's length income is taxed appropriately
O.4	Confirm that PAYG instalments and TFN credits paid by the SMSF during the period have been correctly identified and applied against the current tax liability.
P	GOING CONCERN
P.1	As the members of a defined contribution fund absorb any losses incurred, it is rare for these types of funds to have going concern issues. However, a going concern can arise when a fund has been wound up and the members were paid benefits exceeding their entitlements. Complete the following procedures in relation to going concern: - Review the net asset position of the fund to determine if a net asset deficiency exists. - Consider a modification to the auditor's report.
Q	SUBSEQUENT EVENTS
Q.1	Identify any subsequent events which would affect the financial report, including any adverse events impacting investments, significant investment fluctuations and plans to wind up the fund that should be disclosed in the financial reports.
R	OTHER AUDIT CONSIDERATIONS
R.1	If there have been any transactions with related parties, ensure that these matters have been appropriately addressed and reported in accordance with the accounting policies adopted by the SMSF.
R.2	Check whether material commitments and contingencies are properly disclosed by reviewing or obtaining: - Trustee minutes. - Solicitors' representations. - Trustees' representations.
R.3	Consider the risk of fraud in the design of audit procedures and when evaluating trustees representations. Make reference to the requirements of ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> .
S	TRUSTEE REPRESENTATIONS
S.1	Obtain written representations from the trustee.
S.2	Evaluate that the representations appear reasonable and consistent with the other audit evidence and conclusions.
S.3	If necessary, seek corroborative evidence on trustee representations.

T	COMMUNICATIONS WITH TRUSTEES
	Check that all matters of governance interest arising from the audit are communicated to the trustees on a timely basis, including: • Responsibilities of the auditor in relation to the financial report audit, usually communicated in the engagement letter; • Overview of the planned scope and timing of the audit, usually communicated in the engagement letter but not in a level of detail that may compromise the effectiveness of the audit; • Auditors views about significant findings from the audit engagement; - Significant matters discussed with the trustees include uncorrected misstatements aggregated by the auditor during the audit that were determined by the trustees to be immaterial, both individually and in the aggregate, to the financial report taken as a whole; • Confirmation as to the independence of the auditor.

Draft

Appendix 5

(Ref: Para.49)

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

The following table, based on principles stated in APES 110 *Code of Ethics for Professional Accountants*, provides examples of some of the scenarios which practitioners may face when auditing SMSFs, the type of threats to independence the scenarios present and appropriate safeguards which may address those threats. Assurance practitioners are expected to be fully compliant with the requirements of APES 110 as required by Regulation 9A.06 of the SISR.¹⁹⁶

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
1. An auditor is a trustee or director of a corporate trustee and/or a member of the fund	X	X		X		No safeguards are available which would enable the practitioner to perform audit work, as this involves clear self-interest threats. An auditor who undertakes such an engagement is in clear breach of their professional and ethical obligations.
2. A sole practitioner prepares a SMSF's accounts and performs the financial audit and compliance engagement.	X	X				No safeguards are available which would enable the practitioner to perform both the accounting and audit work, as this involves the auditor reviewing their own work. The auditor withdraws from either the accounting or audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
3. A sole practitioner signs the auditor's report for a SMSF and uses staff to perform the financial audit and compliance engagement work and to prepare the SMSF's accounts.	X	X			X	No safeguards are available which would enable the practitioner to sign the auditor's report as well as supervising the accounting work, as the practitioner is ultimately responsible for the accounting work and this amounts to reviewing their own work. The auditor withdraws from either the accounting or audit engagement.
4. A sole practitioner provides financial advice and audits the SMSF.	X	X	X			No safeguards are available which would enable the practitioner to perform both the financial advisory and audit work, as this involves the auditor in assessing the compliance implications of their own advice. The auditor withdraws from either the financial advisory or the audit engagement. The resultant loss of work by withdrawing may be overcome by entering a reciprocal arrangement with an independent practitioner or firm for referral of SMSF audit engagements.
5. A two partner practice in which one partner is asked to audit the SMSF of which the other partner is a trustee.	X	X			X	No safeguards are available which would enable the practitioner to perform audit work, as this involves a clear self-interest threat. The auditor would not undertake the audit engagement.
6. A two partner practice in which one partner prepares the SMSF's accounts and the other partner conducts the audit.	X	X			X	Threats may be overcome by safeguards including removal of staff who prepare the accounts from the audit team, implementing policies and procedures prohibiting those in the firm who provide accounting services from making decisions on behalf of the SMSF, requiring source data and underlying assumptions to be generated by the SMSF, obtaining SMSF approval for any journal entries, obtaining the SMSF's acknowledgement of their responsibility for

¹⁹⁶ In addition to these examples, assurance practitioners may make reference to the Joint Accounting Bodies *Independence Guide*, Fourth Edition, February 2013.

Guidance Statement GS 009 Auditing Self-Managed Superannuation Funds

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
Common staff work on both engagements.						the accounting work performed by the firm and disclosing to the trustees the firm's involvement in both engagements.
7. A two partner practice where one partner provides financial advice to the SMSF and the other partner audits the SMSF and prepares the SMSF's accounts.	X	X	X			Threats may be overcome by applying safeguards which include each of the two partners performing one of the engagements, with appropriate segregation of the engagement teams, and the firm withdrawing from the third engagement. For example, if one partner conducts the financial advisory work, the second partner prepares the accounts and then the firm withdraws from the audit and segregates the staff working on the engagements which are retained. Additional safeguards may include: implementing policies and procedures to prohibit individuals providing advice from making managerial decisions on behalf of the SMSF and ensuring that the individual providing the advice does not commit the SMSF to the terms of any transaction or consummate a transaction on behalf of the SMSF.
8. A firm prepares the SMSF's annual return and also undertakes the audit of the SMSF.						Where the client takes responsibility for the SMSF annual return including any significant judgements, it will not generally create threats to independence.
9. A sole practitioner audits numerous SMSFs but they are all administered by the same service provider who engages the auditor on behalf of the trustees. The sole practitioner is very reliant on fees generated by referrals from the service provider.	X				X	Safeguards include expanding the client base so that reliance on the administrator is reduced, declining to accept any further audits from the administrator, obtaining external quality reviews and ensuring that the practitioner has direct access to the trustees of each SMSF, so that matters arising during the audit may be communicated without fear of intimidation.
10. A member of the audit engagement team has a close or immediate relationship with the trustees of the SMSF. The auditor signing the audit opinion supervises the team member's work.				X		Safeguards include removing the audit member from the audit engagement team.
11. The auditor has provided accounting advice in relation to a material transaction of the SMSF which was then entered into on the basis of that advice.		X				Technical assistance on accounting principles and advice 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.
12. A partner in a multi-partner practice has had the SMSF as an audit client for "years" and regularly socialises with the SMSF's trustee.				X		The long and personal association with the trustee may compromise the partner's objectivity. Safeguards include transferring the engagement to another partner within the firm or quality control review of the audit findings, including conclusions on significant matters arising in the audit by another partner prior to sign-off of the audit opinion.
13. A practitioner or firm						The practitioner has implemented appropriate safeguards to avoid a self-review

Scenario	Type of threat					Appropriate safeguards
	Self interest	Self-review	Advocacy	Familiarity	Intimidation	
providing administrative services to numerous SMSFs, outsources all of the SMSF audits to one approved SMSF auditor.						threat by referring the audit work to another auditor and it is the responsibility of that auditor to ensure that they are not as reliant on the referrals from the practitioner as to create a self-interest or intimidation threat.

Draft



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **6**

Meeting Date: 15 September 2015

Subject: GS 009 *Auditing Self-Managed Superannuation Funds*

Date Prepared: 31 August 2015

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

As this is a high level update, driven by changes to legislation and regulation, the AUASB is requested to approve the draft GS 009 *Auditing Self-Managed Superannuation Funds*.

Background

Since the approval of the project in June 2015, drafting on the updated GS has been ongoing and a PAG has been formed which is made up of key stakeholders to the industry including the ATO, ASIC, Taxpayers Association, SMSF Association, ICAANZ, CPA, IPA and several SMSF assurance practitioners. The 1st meeting of the PAG to discuss general issues and a preliminary draft of the revised GS 009 was held on Wednesday 26 August 2015.

All matters raised by the PAG, requiring attention, have been addressed in the draft Guidance Statement presented in Agenda Items 6.1 (marked up version) and 6.2 (clean version, electronic only).

Matters to Consider

1. General amendments throughout – editorial/additional explanations
2. Update for legislative requirements
3. Removal references to DBFs
4. Amendments to take into account GS 005 Use of Management's Experts
5. Removal Appendix 3 ATO report
6. Amendments where the term "all" in relation to assertions was used – implies absolute assurance

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Material Presented

Agenda Item 6	AUASB Board Meeting Summary Paper
Agenda Item 6.1	Draft GS 009 (Marked Up Version)
Agenda Item 6.2	Draft GS 009 (Clean Version) [electronic only]

Recommendation

That the draft GS 009 is approved for issuance subject to editorials and quality assurance processes being completed and signed off by the Chairman and Executive Director.

Next Steps

- OBPR process to be completed
 - Final Technical and editorial QA to be completed
 - Issue GS 009
-

EXPOSURE DRAFT

ED XX/15
(December 2015)

Proposed Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*

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

Draft

DISCLAIMER

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



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than . Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ED XX/15

The AUASB issues exposure draft ED XX/15 of proposed Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

Main Proposals

This proposed Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the conduct of and reporting on assurance engagements on compliance. The standard replaces Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*, issued by the AUASB in July 2008 and last revised in October 2008. This Standard on Assurance Engagements facilitates conformity with current AUASB Standards and revised ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued in June 2014. The standard reflects best practice in compliance engagements and clarifies how to scope, conduct and report on an assurance engagement on compliance, to ensure that assurance engagement quality is maintained and where necessary improved.

Proposed Operative Date

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements commencing on or after 1 July 2016 with early adoption permitted.

Main changes from existing ASAE 3100 *Compliance Engagements* (September 2008)

The main differences between this proposed Standard on Assurance Engagements and the Standard on Assurance Engagements that it supersedes, ASAE 3100 *Compliance Engagements* (September 2008), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 3100 *Compliance Engagements* by no later than **XX December** ~~October~~ **2015**. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of compliance engagements?
5. Are there any other significant public interest matters that constituents wish to raise? ^[CG1]

The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Assurance Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard on Assurance Engagements.

Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which provides the overarching requirements for all assurance engagements other than those engagements relating to historical financial information.

Draft

Conformity with International Standards on Assurance Engagements

This Standard on Assurance Engagements has been made for Australian public interest purposes and accordingly there is no equivalent International Standard on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Draft

STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3100

Compliance Engagements

Application

1. This Standard on Assurance Engagements applies to assurance engagements to provide an assurance report on an entity's compliance with requirements as ~~evaluated -against~~ ~~measured by~~ the suitable criteria.

Operative Date

2. This Standard on Assurance Engagements is operative for assurance engagements commencing on or after 1 July 2016, with early adoption permitted prior to this date.

Introduction

Scope of this Standard on Assurance Engagements

3. This Standard on Assurance Engagements (ASAE) deals with assurance engagements undertaken by an assurance practitioner to provide an assurance report on whether an activity at an entity as evaluated against the suitable criteria achieved the intended outcomes, expressed as compliance in all material respects, throughout the period.
4. This ASAE addresses assurance engagements on compliance of an activity:
 - (a) evaluated against the achievement of either overall ~~compliance objectives~~ or ~~specific compliance requirements~~ ~~objectives~~;
 - (b) providing a limited or reasonable assurance conclusion;
 - (c) for either restricted use, by ~~those charged with governance of the entity~~ ~~e-Government~~ or specified third parties, or to be publicly available; and
 - (d) either based on an attestation engagement or a direct engagement.
5. Agreed-upon procedures engagements, where procedures are conducted and factual findings are reported but no conclusion is provided, and consulting engagements, for the purpose of providing advice, on compliance are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.¹

Nature of a Compliance Engagement

6. Compliance engagements are conducted in both the private and public sector, in ~~either~~ ~~which~~ case the engaging party will usually be the entity responsible for the compliance activity which is subject to the compliance engagement. In these circumstances terms of engagement would be agreed with the engaging party.
7. An entity may have an obligation to comply with externally and/or internally ~~established~~ ~~imposed~~ requirements. These requirements may be established through law and regulation, contractual arrangements or internally ~~established~~ ~~imposed~~ requirements, for example company policies.

¹ See ASRS 4400 Agreed upon Procedures Engagements to Report Factual Findings.

8. The style and content of reports for compliance engagements are most commonly not prescribed however in a limited circumstances this may be the case e.g. APRA Annual Registered Superannuation Entity (RSE) compliance reports. This ASAE provides minimum requirements with respect to reporting in a compliance engagement.

Relationship with ASAE 3000, Other Pronouncements and Other Requirements

9. The assurance practitioner is required to comply with ASAE 3000 and this ASAE when performing compliance engagements. This ASAE supplements, but does not replace, ASAE 3000, and expands on how ASAE 3000 is to be applied to limited and reasonable assurance compliance engagements. This ASAE applies the requirements in ASAE 3000 to attestation engagements and adapts those requirements, as necessary, to direct engagements on compliance. ASAE 3000 includes requirements in relation to such topics as engagement acceptance, planning, obtaining evidence and documentation that apply to all assurance engagements, including engagements conducted in accordance with this ASAE. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.
10. Compliance with ASAE 3000 requires, among other things, that the assurance practitioner complies with relevant ethical requirements related to assurance engagements. It also requires the lead assurance practitioner to be a member of a firm that applies ASQC 1.
11. An assurance engagement performed under this ASAE may be part of a larger engagement. In such circumstances, this ASAE is relevant only to the portion of the engagement relating to assurance on compliance.
12. If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, in addition to ASAE 3000, either:
- (a) if the engagement can be separated into parts, the standard relevant to each part of the engagement, including this ASAE for the part on compliance; or
 - (b) if the engagement cannot be separated into parts, the standard which is most directly relevant to the subject matter.
13. Assurance conclusions on compliance may be required by Parliament, Government or other users in conjunction with assurance conclusions on financial reports, other historical financial information, compliance **with other requirements**, controls and/or other subject matters. In these engagements the subject matter, criteria against which that subject matter is evaluated and the level of assurance sought may vary, in which case different standards will apply. Assurance reports can include separate sections for each subject matter, criteria or level of assurance in order that the different matters concluded upon are clearly differentiated.
14. A table showing the AUASB Standards to apply to compliance engagements depending on the subject matter and engagement circumstances is contained in Appendix **3X**.

Objective

15. The objectives of the assurance practitioner for a compliance engagement are:
- (a) to obtain limited or reasonable assurance about whether, an entity has complied in all material respects, with requirements as **evaluated** ~~measured against~~ **by** the suitable criteria;

- (b) to express a conclusion² through a written report on the matters in (a) above which expresses either a reasonable or limited assurance conclusion and describes the basis for the conclusion; and/or
 - (c) to communicate further as required by this ASAE and any other relevant ASAEs.
16. In conducting the assurance engagement, the objectives of the assurance practitioner under ASAE 3000³ include: “to obtain either reasonable or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement”. The subject matter information in a compliance engagement is the outcome of the evaluation of the compliance activity against the suitable criteria. The evaluation is conducted:
- (a) in an attestation engagement, by the responsible party or evaluator, and presented in a Statement, which addresses whether the activity achieved its compliance outcomes. The objective of the assurance practitioner is to obtain reasonable or limited assurance about whether the Statement is free from material misstatement, although the assurance practitioner’s conclusion may be expressed in terms of the activity’s compliance; or
 - (b) in a direct engagement, by the assurance practitioner and presented in the assurance report, therefore, no Statement is prepared by the responsible party or evaluator. The objective of the assurance practitioner is to obtain reasonable or limited assurance about whether the activity achieved its compliance outcomes.

Definitions

17. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:
- (a) Attestation engagement on compliance—A reasonable or limited assurance engagement in which a party other than the assurance practitioner, being the responsible party or evaluator, evaluates the activity’s compliance against the suitable criteria. The outcome of that evaluation is provided in a Statement, which may either be available to the intended users or may be presented by the assurance practitioner in the assurance report. The assurance practitioner’s conclusion may be phrased in terms of the activity’s compliance or the Statement of the responsible entity or evaluator.
 - (b) Criteria—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.
 - (c) Compliance engagement—An assurance engagement to conclude on whether an activity has achieved ~~the~~its compliance ~~objectives~~requirements, which reflect the activity’s intended outcome/s.
 - (d) Compliance framework—~~A means a~~ framework adopted by the entity, which is designed to ensure that the entity achieves compliance, and includes governance structures, programs, processes, systems, controls and procedures.
 - ~~(e)~~ Compliance objective—The outcome which a compliance activity is seeking to achieve.
 - ~~(e)~~
 - (f) Compliance requirement(s)—May be established externally through laws and regulations, other statutory requirements (e.g. ASIC Regulatory Guides and APRA

² The term conclusion also extends to include an opinion expressed in a reasonable assurance engagement.

³ See ASAE 3000, paragraph 10.

Prudential Standards), contractual arrangements, ministerial directives, industry or professional obligations or internally established such as company policies, procedures and frameworks.

~~(g)~~ Deficiency in compliance—A failure to achieve a compliance outcome in whole or in part.

~~(h)~~~~(g)~~ Direct engagement on compliance—A reasonable or limited assurance engagement in which the assurance practitioner evaluates the activity's compliance against the suitable criteria. The outcome of the assurance practitioner's evaluation (the subject matter information) is expressed in the assurance practitioner's conclusion.

~~(i)~~~~(h)~~ Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement.

~~(j)~~ Evaluator—The party(ies) who evaluates the underlying subject matter against the criteria. The evaluator possesses expertise in the underlying subject matter.

~~(k)~~ Firm—A sole practitioner, partnership or corporation or other entity of individual assurance practitioners. "Firm" should be read as referring to its public sector equivalents where relevant.

~~(l)~~ Intended users—The Government, Parliament, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.

~~(m)~~ (k)

~~(n)~~ Internal audit function—A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

~~(o)~~~~(l)~~ Intended users—The Government, Parliament, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.

~~(p)~~~~(m)~~ Limited assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe the subject matter information or subject matter is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the subject matter information or subject matter to a degree that is clearly more than inconsequential.

~~(q)~~~~(n)~~ Long-form report—Assurance report including other information and explanations that are intended to meet the information needs of users but not to affect the assurance practitioner's conclusion. In addition to the matters required to be contained in the assurance practitioner's report, as set out in **paragraph XX**, long-form reports may describe in detail matters such as:

- (i) the terms of the engagement;
- (ii) the criteria being used, such as the specific compliance ~~objectives~~ requirements and compliance activities as designed to achieve each compliance requirement ~~objective~~;
- (iii) descriptions of the tests that were performed;
- (iv) findings relating to the tests that were performed or particular aspects of the engagement;
- (v) details of the qualifications and experience of the assurance practitioner and others involved with the engagement;
- (vi) disclosure of materiality levels; or
- (vii) recommendations.

The assurance practitioner may find it helpful to consider the significance of providing such information to meet the needs of the intended users. As required by paragraph XX, additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner as make it clear that it is not intended to alter or detract from that conclusion.

~~(p)~~ (o) **Material in the context of a compliance engagement—**

- (i) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) breaches – instance(s) of non-compliance that are significant, individually or collectively, in the context of the entity's compliance with the requirements as evaluated ~~measured by~~ against the suitable criteria, and that affect the assurance practitioner's conclusion; and/or
- (ii) in relation to the compliance framework and controls – instance(s) of deficiency that are significant in the context of the entity's control environment and that may raise the compliance engagement risk sufficiently to affect the assurance practitioner's conclusion.

(p) **Misstatement—**A difference between the subject matter information (compliance outcome) and the ~~appropriate measurement or~~ evaluation of the underlying subject matter (compliance activity) in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

(q) **Non-compliance—A failure to achieve a compliance outcome in whole or in part.**

(r) **Professional judgement—**The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

(s) **Professional scepticism—**An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.

(t) **Reasonable assurance engagement—**An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys the assurance practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

- (u) Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence. A representation is additional to but may be provided in combination with the responsible party's or evaluator's Statement provided in an attestation engagement, as set out in **paragraph XX**.
- (v) Responsible party—The party responsible for the underlying subject matter, being the activity's compliance in a compliance engagement.
- (w) Short-form report—Assurance report including only the matters required under **paragraph XX** of this ASAE.
- (x) Statement—The outcome in writing of the responsible party or evaluator's evaluation of the activity's compliance, provided to the assurance practitioner in an attestation engagement. A Statement is the subject matter information in an attestation engagement on compliance.
- (y) Subject matter information **(Compliance Outcome)**—The outcome of the ~~measurement or~~ evaluation of the underlying subject matter against the criteria. ~~In a compliance engagement, the~~ The subject matter information is the Statement of the responsible party or evaluator in an attestation **compliance** engagement, or the assurance practitioner's conclusion in a direct **compliance** engagement, providing the outcome of their evaluation.
- (z) Subject matter or underlying subject matter **(Compliance Activity)**—The ~~activity that is evaluated against the suitable criteria which is seeking to achieve the compliance objectives.~~ **The processes in place to address the compliance requirement.**

Requirements

Applicability of ASAE 3000

18. The assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of this ASAE and ASAE 3000, adapted as necessary in the case of direct engagements. ASAE 3000 contains requirements and application and other explanatory material specific to attestation assurance engagements but it also applies to direct assurance engagements, adapted as necessary in the engagement circumstances.⁴ If this ASAE makes reference to a requirement in ASAE 3000, that requirement shall be applied to both attestation and direct engagements, unless specified otherwise.

Ethical Requirements

19. As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.⁵

Acceptance and Continuance

Preconditions for the Assurance Engagement

20. The assurance practitioner shall accept or continue a compliance engagement only in the circumstances required by ASAE 3000, including that the preconditions for an assurance engagement are present, unless required to accept the engagement by law or regulation.

⁴ See ASAE 3000, paragraph 2.

⁵ See ASAE 3000, paragraphs Aus 20.1 and ASA 102.

Assessing the Appropriateness of the Subject Matter

21. When establishing whether the preconditions for an assurance engagement as required by ASAE 3000 are present, the assurance practitioner is required to assess the appropriateness of the subject matter.⁶ In doing so, the assurance practitioner shall determine whether activities which are to be evaluated are appropriate in addressing the needs of users, that is whether the compliance of those activities determines whether the outcomes being sought are achieved if the subject matter is not appropriate.

Assessing the Suitability of the Criteria

22. When establishing whether the preconditions for an assurance engagement as required by ASAE 3000 are present, the assurance practitioner shall determine the suitability of the criteria expected to be applied, whether the criteria are provided by the engaging party, as in an attestation engagement, or are to be identified, selected or developed by the assurance practitioner, as in a direct engagement, including that they exhibit the characteristics set out in ASAE 3000.⁷ The criteria in a compliance engagement are the compliance objectivesrequirements, whether overall or specific objectivescompliance requirements, which are to be concluded upon.

Agreeing on the Terms of the Engagement

23. ASAE 3000⁸ requires the parties to the engagement to agree on the terms of the assurance engagement in writing. ~~The terms of engagement shall be agreed in writing if there is an engaging party and if there is no engaging party, the responsible party shall be advised of the terms of engagement prior to commencement of the engagement.~~ The assurance practitioner shall obtain the agreement of the responsible party, that it acknowledges and understands its responsibility:
- (a) in an attestation engagement, for evaluating the activity's compliance against the compliance requirementsobjectives and providing a written Statement regarding the outcome of that evaluation and for having a reasonable basis for the written Statement;
 - (b) for identifying suitable compliance objectivesrequirements and whether they were specified by law, regulation, contract, another party (for example, a user group or a professional body) or developed by the responsible party or assurance practitioner;
 - (c) for providing the assurance practitioner with:
 - (i) access to all information, such as records, documentation and other matters of which the responsible party is aware are relevant to the compliance outcomes of the activity;
 - (ii) additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; and
 - (iii) unrestricted access to persons within the entity from whom the assurance practitioner determines it necessary to obtain evidence.
24. The terms of engagement shall identify:
- (a) the purpose of the engagement;
 - (b) whether the engagement is a reasonable or limited assurance engagement;

⁶ See ASAE 3000, paragraph 24(b)(i).

⁷ See ASAE 3000, paragraph 24(b).

⁸ See ASAE 3000, paragraph 27.

- (c) whether the engagement is an attestation or direct engagement and, in the case of an attestation engagement, the form of the responsible party's or evaluator's evaluation of the activity's compliance or Statement and whether that Statement will be available to intended users or only referenced in the assurance report;
- (d) the compliance activity to be evaluated in the engagement;
- (e) the period to be covered by the engagement;
- (f) the compliance ~~objectives~~requirements against which the compliance activity will be evaluated;
- (g) the intended users of the assurance report;
- (h) the content of the assurance report, including whether it will be a short-form or long form report, including additional information such as the compliance ~~objectives~~requirements, procedures conducted, detailed findings and recommendations to meet the needs of the intended users; and
- (i) any other matters required by law or regulation (e.g. reporting all matters of non-compliance to the regulator) to be included in the terms of engagement.

Acceptance of a Change in the Terms of the Engagement

25. If the engaging party requests a change in the terms of the engagement before the completion of the engagement, the assurance practitioner shall be satisfied that there is a reasonable justification for the change as required by ASAE 3000.⁹ (Ref: Para. AXX)

Assurance Report Prescribed by Law or Regulation

26. If Parliament, legislation or regulation prescribe the compliance requirements ~~objectives~~ for evaluation ~~of the activity~~ or the form and content of the assurance report, the assurance practitioner evaluates the criteria and form and content of the assurance report. If the criteria are unsuitable or if intended users might misunderstand the assurance report, the assurance practitioner shall:
- (a) not accept the engagement unless additional explanation in the report mitigates these circumstances; or
 - (b) not include any reference within the assurance report to the engagement having been conducted in accordance with ASAE 3000 or this ASAE, if required to accept the engagement by Parliament, law or regulation.

Quality Control

27. The assurance practitioner shall implement quality control procedures as required by ASAE 3000.¹⁰

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

28. The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing an assurance engagement on compliance as required by ASAE 3000.¹¹ In applying professional scepticism,

⁹ See ASAE 3000, paragraph 29.

¹⁰ See ASAE 3000, paragraphs 31-36.

¹¹ See ASAE 3000, paragraphs 37-39.

the assurance practitioner shall recognise the possibility that non-compliance with the compliance requirements due to fraud could exist, notwithstanding the assurance practitioner's past experience of the honesty and integrity of the entity's management and those charged with governance.

Planning and Performing the Engagement

Planning

29. The assurance practitioner shall plan the engagement so that it will be performed in an effective manner as required by ASAE 3000.¹²

~~30.~~

~~31.~~ In planning the engagement, if the scope of the engagement is based on overall compliance objectives, then the assurance practitioner shall identify the compliance requirements and design procedures ~~select or develop specific compliance objectives,~~ to achieve the agreed overall compliance objectives of the engagement. ~~against which the activity outcomes can be tested~~

Materiality

~~32.~~30. The assurance practitioner shall consider materiality, as required by ASAE 3000,¹³ when determining the nature, timing and extent of procedures.

~~33.~~31. The assurance practitioner shall identify any non-compliance output from an activity as material if it is fundamental-significant to the achievement of any outcome, which is reflected in the compliance objectives to be concluded upon. During the engagement the assurance practitioner shall reassess the materiality of any the outputs and outcomes non-compliance with compliance requirements if matters come to their attention which indicate that the basis on which the materiality of those outputs or outcomes was determined has changed.

~~34.~~32. The assurance practitioner shall also consider materiality when evaluating the effect of accumulated deficiencies in the compliance framework or non-compliance the compliance with the compliance activity to achieve the compliance objectives requirements. Material deficiencies or non-compliance in outputs are those which could detrimentally-significantly impact the achievement of compliance outcomes and reasonably be expected to influence relevant decisions of the intended users.

Obtaining an Understanding of the Compliance Framework and Compliance Requirements Activity ~~and Other Engagement Circumstances~~

Limited Assurance	Reasonable Assurance
34L. <u>The assurance practitioner shall obtain an understanding of the entity's compliance framework and its key elements and the compliance requirements which are included in the scope of the engagement, and other engagement circumstances, and on the basis of that understanding, the assurance practitioner shall:</u> <u>(a) for a direct engagement, consider whether the identification, selection</u>	34R. <u>The assurance practitioner shall obtain an understanding of the entity's compliance framework and its key elements and the compliance requirements which are included in the scope of the engagement, and other engagement circumstances, and on the basis of that understanding, the assurance practitioner shall:</u> <u>(a) for a direct engagement, consider whether the identification, selection</u>

¹² See ASAE 3000, paragraph 40.

¹³ See ASAE 3000, paragraph 44.

Limited Assurance	Reasonable Assurance
<u>or development of compliance requirements is appropriate, and/or select or develop further suitable compliance requirements;</u> <u>(b) for both attestation and direct engagements:</u> <u>(i) identify areas where the risks that may cause non-compliance with each of the compliance requirements to be concluded upon are likely to arise; and</u> <u>(ii) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph XX(b)(i).</u>	<u>or development of compliance requirements is appropriate, and/or select or develop further suitable compliance requirements;</u> <u>(b) for both attestation and direct engagements:</u> <u>(i) identify and assess the risks that may cause non-compliance with each of the compliance requirements to be concluded upon; and</u> <u>(ii) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph XX(b)(i); and</u> <u>(c) obtain an understanding of the relevant controls over achieving the compliance requirements, evaluating the design of those controls and determining whether they have been implemented.</u>

- ~~36. The assurance practitioner shall obtain an understanding of the activity which is included in the scope of the engagement, and other engagement circumstances, and on the basis of that understanding, the assurance practitioner shall:~~
- ~~(a) for a direct engagement, consider whether the identification, selection or development of compliance objectives is appropriate, and/or select or develop further suitable compliance objectives;~~
- ~~(b) for both attestation and direct engagements:~~
- ~~(i) identify and assess the risks that threaten achievement of each of the compliance objectives to be concluded upon; and~~
- ~~(ii) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph XX(b)(i); and~~
- ~~(c) obtain an understanding of the controls over achieving the compliance objectives, evaluating the design of those controls and determining whether they have been implemented.~~
- ~~obtain an understanding of the compliance framework and its key elements.~~

Identifying Risks of Fraud

- ~~37.~~34. When performing risk assessment procedures and related activities to obtain an understanding of the compliance framework and other engagement circumstances, the assurance practitioner shall perform the following procedures, to obtain information for use in identifying the risks of the compliance ~~objectives~~requirements not being achieved due to fraud: (Ref: Para. AXX)

- (a) make enquiries of management regarding:
 - (i) management's assessment of the risk that controls may be circumvented due to fraud, including the nature, extent and frequency of such assessment;
 - (ii) management's process for identifying and responding to the risks of fraud;
 - (iii) management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud; and
 - (iv) management's communication, if any, to employees regarding its views on corrupt or fraudulent business practices and unethical behaviour;
- (b) make enquiries of those charged with governance, management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity;
- (c) make enquiries of the internal audit function, where it exists, to determine whether it has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud;
- (d) obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks;
- (e) consider whether other information obtained by the assurance practitioner indicates risks of compliance ~~objectives~~requirements not being achieved due to fraud, for which mitigating controls are necessary;
- (f) evaluate whether the information obtained from the other risk assessment procedures and related activities performed indicates that one or more fraud risk factors are present; and
- (g) identify controls over matters for which decisions or actions are not routine, such as adjustments to records, development of estimates and activities outside the normal course of business.

Obtaining an Understanding of the Internal Audit Function

~~38.~~35. In planning the engagement, the assurance practitioner shall determine whether the entity has an internal audit function. If so the assurance practitioner shall obtain an understanding of the internal audit function and perform a preliminary assessment regarding: (Ref: Para. AXX)

- (a) its impact on the ~~compliance framework system~~ and the components ~~of control~~ within that ~~framework system~~, including the control environment, risk assessment, information and communication, monitoring activities and control activities in relation to the ~~framework system~~; and
- (b) its effect on procedures to be performed by the assurance practitioner.

~~39.~~36. If the assurance practitioner plans to use the work of the internal audit function, in accordance with paragraph ~~39~~35, the assurance practitioner shall evaluate it as required by ASAE 3000.¹⁴ (Ref: Para. AXX)

~~40.~~37. The use of internal auditors to provide direct assistance is prohibited in an assurance engagement conducted in accordance with this ASAE. Direct assistance is the performance of

¹⁴ See ASAE 3000, paragraph 55.

assurance procedures under the direction, supervision and review of the assurance practitioner.¹⁵ This prohibition does not preclude reliance on the work of the internal audit function to modify the nature or timing, or reduce the extent, of assurance procedures to be performed directly by the assurance practitioner. (Ref: Para. AXX)

Determining Whether and to What extent to use the Work of the Internal Audit Function

- 41.38. If the assurance practitioner's evaluation of the internal audit function confirms that the work of the internal audit function can be used for purposes of the engagement, then the assurance practitioner shall determine the planned effect of the work of the internal audit function on the nature, timing or extent of the assurance practitioner's procedures and in doing so, shall consider: (Ref: Para. AXX)
- (a) the nature and scope of work performed, or to be performed, on compliance within the system by the internal audit function;
 - (b) the significance of that work to the assurance practitioner's conclusions; and
 - (c) the degree of subjectivity involved in the evaluation of the evidence obtained in support of those conclusions.

Obtaining Evidence

- 42.39. Based on the assurance practitioner's understanding obtained under paragraph XX the assurance practitioner shall perform assurance procedures to respond to assessed risks identified in paragraph XX(b) to obtain limited or reasonable assurance to support the assurance practitioner's conclusion.
- 43.40. The assurance practitioner shall design and perform additional procedures, the nature, timing and extent of which are responsive to the risks of material deficiency in the compliance framework or non-compliance with compliance requirements, having regard to the level of assurance required, reasonable or limited, as appropriate. (Ref: Para. AXX)

Responses to Assessed Risks of Fraud

- 44.41. The assurance practitioner shall treat those assessed risks of compliance objectivesrequirements not being achieved due to fraud as significant risks and accordingly, the assurance practitioner shall design and perform further assurance procedures, on controls designed to mitigate such risks, whose nature, timing and extent are responsive to those assessed risks, having regard to the level of assurance required, reasonable or limited, as appropriate.

Obtaining Evidence Regarding the Compliance Activity

- 45.42. When reporting on compliance activities over the period, the assurance practitioner shall evaluatetest those compliance activities that the assurance practitioner has determined are necessary to achieve the compliance requirementobjectives identified, and assess their complianceoperating effectiveness throughout the period. (Ref: Para. AXX)

Limited Assurance	Reasonable Assurance
46.43. DO NOT DELETE 44L. The nature, timing and extent of <u>evaluation</u><u>tests</u> of compliance activities, shall ordinarily be limited to discussion	44R. The nature, timing and extent of <u>evaluation</u><u>tests</u> of compliance activities, shall ordinarily include, in addition to discussion with entity personnel and observation of the activity in operation

¹⁵ See ASAE 3000, paragraphs 3 and Aus 20.1.

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Compliance Engagements

Limited Assurance	Reasonable Assurance
with entity personnel, observation of the system in operation and walk-through for an appropriate number of instances of material compliance activities to identify any ~~non-compliance~~ breaches. Alternatively, the results of exception reporting, monitoring or other management controls may be examined to provide evidence about the operation of the compliance activity rather than directly testing it. (Ref: Para. AXX)	for ~~non-compliance~~ breaches, re-performance of compliance procedures, or other examination and follow up of the application of compliance procedures, on a test basis to provide sufficient appropriate evidence on which to base an opinion. The results of exception reporting, monitoring or other management controls may be examined to reduce the extent of direct ~~evaluation~~ testing of the operation of the compliance activity but shall not eliminate it entirely. (Ref: Para. AXX)
~~47-44.~~ DO NOT DELETE 45L. The assurance practitioner shall apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted, which will depend on the assessed risks of material ~~non-compliance~~ deficiencies or breaches in the compliance activity. If the assurance practitioner determines that additional assurance procedures are required to dispel or confirm a suspicion that a material breach in the compliance activity exists, the performance of such additional procedures shall not convert the engagement to a reasonable assurance engagement as they relate to the reduction of risk to an acceptable level with respect to that matter alone. (Ref: Para. AXX)	45R. The assurance practitioner shall apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted, which will depend on the assessed risks of material ~~non-compliance~~ breaches in the compliance activity. (Ref: Para. AXX)
	~~45.~~ DO NOT DELETE ~~46R.~~ 46R.—When determining the extent of ~~evaluation~~ tests of compliance activities, the assurance practitioner shall consider matters including the characteristics of the population to be ~~evaluated~~ tested, which includes the nature of the activity, the frequency of their ~~occurrence~~ application (for example, monthly, daily, a number of times per day), and the expected rate of deviation. Some activities operate continuously, while others operate only at particular times, so the ~~evaluation of compliance activities~~ tests of operating effectiveness shall be performed over a period of time that is adequate to determine that ~~they are the compliance~~ ~~tee procedures are operating effectively~~. (Ref: Para. AXX)

Sampling

- 48-46. When the assurance practitioner uses sampling to select compliance activities for testing over a period, the assurance practitioner shall: (Ref: Para. AXX)
- (a) consider the purpose of the procedure and the characteristics of the activity from which the sample will be drawn when designing the sample;
 - (b) determine a sample size sufficient to reduce sampling risk to an acceptably low level;
 - (c) select items for the sample in such a way that each sampling unit in the population has a chance of selection and the sample is representative of the population; and
 - (d) if unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

Evaluating the Evidence Obtained

- 49-47. ASAE 3000¹⁶ requires the assurance practitioner to accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial. Misstatements in a compliance engagement are ~~non-compliance breaches~~ in the compliance activity as evaluated against the ~~compliance identified~~ requirements.

Non-compliance with Other Laws or Regulations

- 50-48. Beyond the scope of the engagement. If the assurance practitioner becomes aware of information concerning an instance of non-compliance or suspected non-compliance with respect to laws and regulations, whether due to the controls themselves not meeting compliance requirements or a failure of controls to prevent or detect non-compliance by the entity, the assurance practitioner shall:
- (a) discuss the matter with management and, if those matters are intentional or material, those charged with governance, unless management or those charged with governance are suspected of involvement in the non-compliance, in which case a level of authority above those suspected of involvement;
 - (b) determine whether the assurance practitioner has a responsibility to report the identified or suspected non-compliance to parties outside of the entity and, if necessary, seek legal advice;
 - (c) if sufficient information regarding suspected non-compliance cannot be obtained, evaluate the effect of insufficient evidence on the assurance report;
 - (d) evaluate the implications of non-compliance in relation to other aspects of the engagement, including the risk assessment and the reliability of written representations; and
 - (e) consider the impact on the assurance practitioner's conclusion of identified non-compliance.

Work Performed by an Assurance Practitioner's Expert

- 51-49. When the assurance practitioner plans to use the work of an assurance practitioner's expert, the assurance practitioner shall comply with the requirements in ASAE 3000.¹⁷

¹⁶ See ASAE 3000, paragraph 51.

¹⁷ See ASAE 3000, paragraph 52.

Work Performed by Another Assurance Practitioner or a Responsible Party's or Evaluator's Expert, or an Internal Auditor

- 52.50. If the assurance practitioner plans to use information prepared using the work of another assurance practitioner or a responsible party's or evaluator's expert or an internal auditor, as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.¹⁸

Evaluation and Communication of Non-Compliance ~~Deficiencies and Breaches~~

- 53.51. The assurance practitioner evaluates individually and in aggregate, whether non-compliance ~~deficiencies and or compliance~~ with the compliance requirements is ~~breaches are~~ material.
- 54.52. The assurance practitioner communicates these material non-compliance with the compliance requirements ~~deficiencies and or compliance breaches~~ to the responsible party or those charged with governance as soon as practicable.

Written Representations

- 55.53. The assurance practitioner shall request the responsible party, or other relevant person(s) within the entity to provide written representations, in addition to those required by ASAE 3000,¹⁹ that the responsible party:
- (a) in the case of an attestation engagement, reaffirms their Statement regarding the outcome of the responsible party's evaluation of the activity's compliance against the compliance objectives ~~requirements~~ throughout the period;
 - (b) acknowledges its responsibility for the compliance of the activity, including identifying the risks that threaten achievement of the compliance objectives ~~requirements~~, and designing, implementing and maintaining controls to mitigate those risks, including the risk of fraud, so that those risks will not prevent achievement of the compliance objectives ~~requirements~~;
 - (c) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph XX(b)(v);
 - (d) has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
 - (i) non-compliance ~~deficiencies in achievement~~ with ~~the compliance~~ objectives ~~requirements~~; or
 - (ii) any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.

Subsequent Events

- 56.54. When relevant to the compliance engagement, the assurance practitioner shall consider the effect on the compliance outcome and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report, that had they been known to the assurance practitioner at that date, may have caused them to amend the assurance report. Assurance procedures required to be conducted under ASAE 3000,²⁰ to identify all matters up to the date of the assurance report that may have caused the assurance practitioner to amend the assurance report on the activity's compliance, shall include enquiry as to whether the responsible party is

¹⁸ See ASAE 3000, paragraphs 53-54.

¹⁹ See ASAE 3000, paragraph 56.

²⁰ See ASAE 3000, paragraph 61.

aware of any events subsequent to the period covered by the assurance engagement up to the date of the assurance practitioner's report that may have caused the assurance practitioner to amend the assurance report. If the assurance practitioner is aware of such an event, remedial action is either not taken or is not effective in mitigating the impact on the assurance conclusion and information about that event is not disclosed by the responsible party, the assurance practitioner shall disclose the subsequent event in the assurance practitioner's report. If the event may impact the assurance conclusion, the assurance practitioner shall gather further evidence sufficient to determine whether the assurance conclusion remains appropriate or a modified assurance conclusion is required. The extent of consideration of subsequent events depends on the potential for such events to affect the compliance outcome and the appropriateness of the assurance practitioner's conclusion. The assurance practitioner has no responsibility to perform any procedures regarding the compliance outcome after the date of the assurance report.

Forming the Assurance Conclusion

- 57.55. The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary, attempt to obtain further evidence. If the assurance practitioner is unable to obtain necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion in accordance with ASAE 3000.²¹ The assurance practitioner shall qualify their conclusion if the possible effects of undetected ~~deficiencies non-compliance with the in achievement of the compliance requirements objectives~~ due to an inability to obtain sufficient appropriate evidence could be material, and shall disclaim their conclusion if the possible effects could be both material and pervasive.
- 58.56. When the assurance practitioner forms a conclusion in accordance with ASAE 3000,²² the assurance practitioner shall evaluate the materiality, individually and in aggregate whether due to fraud or error, of any ~~non-compliance deficiencies in achievement of with the compliance objectives requirements~~.
- 59.57. The assurance practitioner shall assess the impact of identified ~~deficiencies non-compliances~~ in achievement of the compliance ~~objectives requirements~~, which are material individually or in combination, on the assurance practitioner's conclusion on the compliance of the activity. If the ~~non compliance deficiencies~~ identified are: (Ref: Para. AXX-AXX)
- (a) material but not pervasive, the assurance practitioner shall qualify their assurance conclusion with respect to the relevant matter; or
 - (b) material and pervasive, the assurance practitioner shall issue an adverse conclusion.

Preparing the Assurance Report

- 60.58. The assurance practitioner shall prepare the assurance report in accordance with ASAE 3000²³ for attestation engagements and shall also apply those requirements for direct engagements.

Assurance Report Content

- 61.59. For both attestation and direct engagements, the assurance practitioner shall include in the assurance report the basic elements required by ASAE 3000,²⁴ which are at a minimum:
- (a) a title, indicating that it is an independent assurance report;
 - (b) an addressee;

²¹ See ASAE 3000, paragraph 66.

²² See ASAE 3000, paragraphs 64-65.

²³ See ASAE 3000, paragraphs 67-69.

²⁴ See ASAE 3000, paragraph 69.

- (c) an identification of whether reasonable or limited assurance has been obtained by the assurance practitioner;
- (d) identification of the activity which is the subject matter of the engagement including:
 - (i) the distinguishing features of the activity which was subject to the compliance engagement;
 - (ii) the period covered by the compliance engagement;
 - (iii) in the case of an attestation engagement, reference to the responsible party's Statement as required by paragraph XX(a)(i) and whether that Statement is available to intended users by accompanying the assurance report, reproduction in the assurance report or another identified source;
 - (iv) identification of the overall and/or specific compliance ~~objectives~~ requirements used as criteria for evaluating the compliance of the activity and the party specifying those compliance ~~objectives~~ requirements;
 - (v) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's compliance against the compliance ~~objectives~~ requirements;
- (e) a statement that the responsible party or evaluator is responsible for:
 - (i) in an attestation engagement:
 - a. providing a Statement with respect to the outcome of the evaluation of the activity's compliance against the compliance ~~objectives~~ requirements;
 - b. identifying the compliance ~~objectives~~ requirements (where not identified by Parliament, the Government, law or regulation, or another party, for example, a user group or a professional body); and
 - (ii) in both an attestation and a direct engagement:
 - a. the activity covered by the assurance practitioner's report;
 - b. designing and implementing controls to enable achievement of the compliance ~~objectives~~ requirements and to monitor compliance in achieving the compliance ~~objectives~~ requirements;
- (f) a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's compliance in achieving the compliance ~~objectives~~ requirements;
- (g) a statement that the engagement was performed in accordance with ASAE 3100 Compliance Engagements;
- (h) a statement that the ~~Audit Office or~~ firm of which the assurance practitioner is a member applies ASQC 1;
- (i) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- (j) a summary of the work performed by the assurance practitioner to obtain reasonable or limited assurance and a statement of the assurance practitioner's belief that the evidence obtained is sufficient and appropriate to provide a basis for the assurance practitioner's conclusion. In the case of a limited assurance engagement, in which an appreciation of the nature, timing, and extent of procedures performed is essential to

understanding the assurance practitioner's conclusion, the summary of the work performed shall state that:

- (i) the procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
- (ii) consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;
- ~~(k) a statement of the limitations of compliance and, if applicable, of the risk of projecting to other periods the outcome of any evaluation of the activity's compliance;~~
- (k) where appropriate, a description of any significant, inherent limitation associated with the evaluation of compliance with the compliance requirements;
- (l) when the criteria used to evaluate the compliance requirements are available only to specific intended users, or are relevant only for a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose;
- ~~(+)(m)~~ either, the assurance practitioner's opinion for a reasonable assurance engagement or the assurance practitioner's conclusion for a limited assurance engagement about whether, in all material respects the activity achieved the compliance ~~objectives~~requirements throughout the period.
- ~~(+)(n)~~ when the assurance practitioner expresses a modified conclusion, the assurance report shall contain:
 - (i) a section (entitled: Basis for Qualified/Adverse/Disclaimer of Conclusion/Opinion) that provides a description of the matter(s) giving rise to the modification; and
 - (ii) a section that contains the assurance practitioner's modified conclusion;
- ~~(+)(o)~~ the assurance practitioner's signature, the date of the assurance report and the location in the jurisdiction where the assurance practitioner practices.

~~62.60.~~ If the assurance practitioner ~~is required to provide~~s a long-form assurance report to meet the information needs of users, as agreed in the terms of engagement, or as required by law or regulation, the assurance practitioner's report shall include a separate section, or an attachment, containing any other information and explanations that are not intended to affect the assurance practitioner's conclusion and are clearly identified as such.

~~63.61.~~ If the assurance practitioner is required to conclude on other subject matters under different AUASB standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings.

Emphasis of Matter and Other Matter Paragraphs

~~64.62.~~ The assurance practitioner shall include an Emphasis of Matter or Other Matter paragraph in the circumstances provided for in ASAE 3000²⁵ for an attestation engagement. In a direct engagement, if the assurance practitioner considers it necessary to communicate a matter that, in the assurance practitioner's judgement, is relevant to intended users' understanding of the engagement, the assurance practitioner's responsibilities or the assurance report, the assurance

²⁵ See ASAE 3000, paragraph 73.

practitioner shall include in the assurance report an Other Matter paragraph, with an appropriate heading, that clearly indicates the assurance practitioner's conclusion is not modified in respect of the matter.

Modified Conclusions

- ~~65.~~**63.** If the assurance practitioner concludes that the activity has not achieved the compliance ~~objectives~~**requirements** throughout the period; or the assurance practitioner is unable to obtain sufficient appropriate evidence, the assurance practitioner's conclusion shall be modified, and the assurance practitioner's report shall include a section with a clear description of all the reasons for the modification.

Scope Limitation

- ~~66.~~**64.** A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement, and the assurance practitioner believes that an inability to form an opinion or reach a conclusion would need to be expressed, the engagement shall not be accepted or continued past the current period, unless required to do so by law or regulation.
- ~~67.~~**65.** When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's conclusion shall indicate that it is qualified as to the effects of any deficiency in the compliance of the activity, which might have been identified had the limitation not existed. If the effect of the unresolved scope limitation is both material and pervasive, the assurance practitioner shall express a disclaimer of conclusion.

Other Communication Responsibilities

- ~~68.~~**66.** The assurance practitioner shall consider whether, pursuant to the terms of the engagement, if applicable, and other engagement circumstances, any matter has come to the attention of the assurance practitioner that is to be communicated with the responsible party, the evaluator, the engaging party, those charged with governance or others, as required by ASAE 3000.²⁶ If during the course of the engagement the assurance practitioner identifies any ~~deficiencies~~**non-compliance with the** entity's compliance ~~requirements~~**requirements** other than those which are clearly trivial, the assurance practitioner shall report to an appropriate level of management or those charged with governance on a timely basis those ~~matters of non-compliance~~**deficiencies**.
- ~~69.~~**67.** If the assurance practitioner has identified a fraud or has obtained information that indicates that a fraud may exist, the assurance practitioner shall communicate these matters on a timely basis to the appropriate level of management or those charged with governance in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. The assurance practitioner shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity.
- ~~70.~~**68.** The assurance practitioner shall design engagement procedures to gather sufficient appropriate evidence to form a conclusion in accordance with the terms of the engagement. In the absence of a specific requirement in the terms of engagement the assurance practitioner does not have a responsibility to design procedures to identify matters outside the scope of the engagement that may be appropriate to report to management or those charged with governance.

²⁶ See ASAE 3000, paragraph 78.

Documentation

- | ~~71.~~**69.** The assurance practitioner shall prepare documentation in accordance with ASAE 3000.²⁷ In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:
- (a) the identifying characteristics of the activity's compliance being tested;
 - (b) who performed the work and the date such work was completed; and
 - (c) who reviewed the work performed and the date and extent of such review.
- | ~~72.~~**70.** If the assurance practitioner uses specific work of the internal audit function, the assurance practitioner shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal audit function, and the procedures performed by the assurance practitioner on that work.

* * *

²⁷ See ASAE 3000, paragraphs 79-83.

Application and Other Explanatory Material

Application (Ref: Para. 1)

- A1. Engagements which are covered by this ASAE and those that are covered by other subject matter specific ASAEs have been further illustrated at Appendix 3.

Introduction

- A2. The primary purpose of an assurance engagement is the conduct of assurance procedures to provide an assurance conclusion. However, the assurance practitioner is not precluded from providing recommendations for improvements to the compliance framework or compliance activity's in conjunction with or as a result of conducting an assurance engagement to report on compliance.
- A3. The risks, compliance requirements and related controls addressed in an engagement under this ASAE may relate to any subject matter relevant to the entity. The subject matter can be any activity of the entity, such as: compliance with legislation or regulation; contractual arrangements or policy and procedures.
- A4. The primary practical difference for the assurance practitioner between an attestation and a direct engagement is the additional work effort for a direct engagement when planning the engagement and understanding the compliance framework and other engagement circumstances. In a direct engagement the assurance practitioner identifies or selects the compliance requirements which address the purpose or overall objective of the engagement. This difference affects the assurance practitioner's work effort in planning a direct engagement if the compliance requirements have not been identified or documented and in understanding the entity's compliance framework where a description is not available.
- A5. In a three party relationship, which is an element of an assurance engagement,²⁸ the responsible party may or may not be the engaging party, but is responsible for the compliance activity's which are the underlying subject matter of the engagement and is a separate party from the intended users. The responsible party and the intended users may both be internal to the entity, for example if the responsible party is at an operational level of management and the intended users are at the level of those charged with governance, such as the Board or Audit Committee. See Appendix 1 for a discussion of how each of these roles relate to an assurance engagement on compliance.

Definitions

Applicability of ASAE 3000

Ethical Requirements

- A6. In accepting an assurance engagement on compliance, the assurance practitioner, in order to comply with relevant ethical requirements, considers whether the assurance practitioner has provided internal audit or consulting services with respect to the compliance framework or implementation of controls at the entity, as any such past or current engagements are likely to impact on the assurance practitioner's independence and are likely to preclude acceptance of the engagement.

²⁸ See Framework for Assurance Engagements.

Acceptance and Continuance

Competence and Capabilities to Perform the Engagement

- A7. Relevant competence and capabilities to perform the compliance engagement, as required by ASAE 3000²⁹ by persons who are to perform the engagement, include matters such as the following:
- Knowledge of the relevant industry, compliance framework, type of system and of the nature of the overall compliance requirements (for example: emissions quantification or regulatory compliance).
 - An understanding of IT and systems.
 - Experience in evaluating risks as they relate to the compliance requirements.
 - Experience in the design and execution of tests of compliance and the evaluation of the results.

Assessing the Appropriateness of the Subject Matter

- A8. An appropriate subject matter is:
- (a) identifiable, and capable of consistent evaluation against the identified criteria; and
 - (b) such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
- A9. Examples of subject matters that may be appropriate for a compliance engagement include compliance with the following:
- General Insurers and Insurance Groups - Risk Management Strategy & Reinsurance Management Strategy (RMS/REMS).
 - Treasurer's Instructions.
 - Managed Investment Schemes – Compliance Plan.
 - Registered Superannuation Entity – SIS Act requirements (SPS 310)
 - Financial Services Licensee – Corporations Act 2001 requirements
- A10. For further guidance on assessing the appropriateness of the subject matter refer to [Appendix 2 and ASAE 3000](#)³⁰.

Assessing the Suitability of the Criteria

- A11. Where the criteria are prescribed by legislation or regulation the criteria will be deemed to be suitable for the purposes of the compliance engagement. In circumstances where this is not the case, the assurance practitioner needs to assess the suitability of the criteria to evaluate the requirement.
- A12. In the context of a compliance engagement, examples of suitable criteria include:
- Externally imposed criteria under law or directives, including:

²⁹ See ASAE 3000, paragraph 32.

³⁰ See ASAE 3000, paragraph 24(b)(i).

- Legislation.
 - Regulation.
 - Other statutory requirements (e.g. ASIC Regulatory Guides and Practice Notes or APRA Prudential Standards).
 - Ministerial directives.
 - Industry or professional obligations (professional standards or guidance, codes of practice or conduct).
 - Enforceable contractual obligations.
 - Enforceable undertakings.
 - Internally imposed criteria, as determined by management, including:
 - Organisational policies and procedures.
 - Frameworks, for example, compliance framework based on [ISO 19600 AS 3806 – Compliance Management Systems](#) [Australian Standard Compliance Programs](#)
- A13. Suitable criteria need to be identified by the parties to the engagement and agreed by the engaging party and the assurance practitioner. The assurance practitioner may need to discuss the criteria to be used with those charged with governance, management and the intended users of the report. Criteria can be either established or specifically developed. The assurance practitioner normally concludes that established criteria embodied in laws or regulations or issued by professional bodies, associations or other recognised authorities that follow due process are suitable when the criteria are consistent with the objective. Other criteria may be agreed to by the intended users of the assurance practitioner's report, or a party entitled to act on their behalf, and may also be specifically developed for the engagement.
- A14. In situations where the criteria have been specifically developed for the engagement, including where the assurance practitioner develops or assists in developing suitable criteria, the assurance practitioner obtains from the intended users or a party entitled to act on their behalf, acknowledgment that the specifically developed criteria are sufficient for the user's purposes.
- A15. The criteria may need to be amended during the engagement, if for example more information becomes available or the circumstances of the entity change. Any changes in the criteria are discussed with the engaging party and, if appropriate the intended users.

Agreeing on the Terms of the Engagement

- A16. When agreeing whether the engagement is to be conducted as an attestation or direct engagement, the assurance practitioner considers factors such as whether:
- (c) there is a regulatory requirement or users need an evaluation of the compliance activity by the responsible party or evaluator;
 - (d) the entity has the resources and expertise to prepare a suitable description or documentation of the compliance requirements and related controls and conduct a meaningful evaluation of those controls; or
 - (e) it is more cost effective for the entity to identify the specific compliance requirements and related controls, evaluate those compliance activities as the basis for an attestation engagement, rather than it being necessary for the assurance practitioner to do so in a direct engagement.

- A17. The assurance practitioner considers the needs of users in agreeing the point in time or period to be covered by the assurance engagement, so that the report is not likely to be misleading.
- A18. If the criteria are compliance requirements which are available when agreeing the terms of engagement, they may be listed or attached to the engagement letter or other written terms.
- A19. When agreeing whether the report will be in long-form, including matters such as evaluation of compliance procedures and detailed findings, the assurance practitioner considers both the needs of users and the risks of users misunderstanding the context of the procedures conducted or the findings reported. Reporting evaluation of compliance procedures and findings may be appropriate where the users are knowledgeable with respect to assurance and the compliance requirements and, therefore, not likely to misinterpret those findings.
- A20. An example engagement letter is contained in Appendix X.

Planning and Performing the Engagement

Planning (Ref: Para. XX-XX)

- A21. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the compliance engagement, and a compliance engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be undertaken and the reasons for selecting them. Ordinarily, adequate planning:
- Helps to devote appropriate attention to important areas of the compliance engagement, identify potential problems on a timely basis and properly organise and manage the compliance engagement in order for it to be conducted in an effective and efficient manner.
 - Assists the assurance practitioner to properly assign work to compliance engagement team members, and facilitates their direction and supervision and the review of their work.
 - Assists, where applicable, the coordination of work done by other assurance practitioners and experts.
- A22. The nature and extent of planning activities will vary with the compliance engagement circumstances, for example the size and complexity of the compliance activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:
- The terms of the compliance engagement.
 - The characteristics of the compliance activity and the identified criteria.
 - The compliance engagement process and possible sources of evidence.
 - The assurance practitioner's understanding of the compliance activity and other compliance engagement circumstances.
 - Identification of intended users and their needs, and consideration of materiality and the components of compliance engagement risk.
 - Personnel and expertise requirements, including the nature and extent of involvement by experts.
- A23. Planning is not a discrete phase, but rather a continual and iterative process throughout the compliance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and compliance engagement plan, and

thereby the resulting planned nature, timing and extent of further evidence-gathering procedures.

Materiality

- A24. The assurance practitioner applies the same considerations in both limited assurance and reasonable assurance engagements regarding what represents a material compliance activity and requirement, since such judgements are not affected by the level of assurance being obtained.
- A25. The assurance practitioner considers the materiality of the compliance activity and compliance requirements at the planning stage, reassesses materiality during the engagement based on the findings, and considers the materiality of any identified deficiencies in the compliance framework and non-compliance with compliance requirements.
- A26. The assurance practitioner considers materiality in the context of quantitative and qualitative factors, such as relative magnitude of instances of detected or suspected non-compliance, the nature and extent of the effect of these factors on the evaluation of compliance with the compliance requirements ~~against as measured by~~ the criteria, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the assurance practitioner's professional judgement, taking into account specific regulatory reporting requirements.
- A27. Quantitative and qualitative factors which the assurance practitioner may consider when assessing materiality may include:
- The magnitude of the impact of the compliance activity's performance.
 - The relative importance of the matter to achieving the compliance activity's outcomes~~requirements~~.
 - The financial impact of the matter on the compliance activity as a whole.
 - The nature of relevant transactions, whether they involve high volumes, large dollar values and complex transactions relative to the compliance activity as a whole.
 - The extent of interest shown in particular aspects of the compliance activity by, for example, governing body, regulatory authorities and agencies or the public.

Obtaining an Understanding of the Compliance Framework and Compliance Requirements

- A28. The assurance practitioner's understanding of the compliance framework and compliance requirements, ordinarily, has a lesser depth for a limited assurance engagement than for a reasonable assurance engagement. The assurance practitioner's procedures to obtain this understanding may include:
- Review and understand the relevant criteria and compliance objective.
 - Enquiring of those within the entity who, in the assurance practitioner's judgement, may have relevant information.
 - Observing operations.
 - Inspecting documents, reports, printed and electronic records.
 - Re-performing compliance procedures.
- A29. The nature and extent of procedures to gain this understanding are a matter for the assurance practitioner's professional judgement and will depend on factors such as:

- (a) the entity's size and complexity;
- (b) the nature of the system to be examined, including the compliance requirement(s) to which the compliance procedures are directed and the risk that those compliance requirements will not be achieved;
- (c) the extent to which IT is used; and
- (d) the documentation available.

A30. The nature and extent of planning and subsequent evidence-gathering procedures will vary with the engagement circumstances, and the maturity of the entity's compliance framework.

Elements of an entity's compliance framework ordinarily include the following:

- Procedures for identifying and updating compliance obligations.
- Staff training and awareness programs.
- Procedures for assessing the impact of compliance obligations on the entity's key business activities.
- Controls embedded within key business processes designed to ensure compliance with obligations.
- Processes to identify and monitor the implementation of further mitigating actions required to ensure that compliance obligations are met.
- A monitoring plan to test key compliance controls on a periodic basis and report exceptions.
- Procedures for identifying, assessing, rectifying and reporting compliance incidents and breaches.
- Periodic sign off by management and/or external third party outsourced service providers as to compliance with obligations.
- A compliance governance structure that establishes responsibility for the oversight of compliance control activities with those charged with governance, typically a Board Audit, Risk Management or Compliance Committee.

Identifying Risks of Fraud (Ref: Para. XX)

A31. Management is in a unique position to perpetrate fraud because of management's ability to manipulate the entity's records or prepare fraudulent reports by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk that compliance requirements will not be achieved due to fraud and thus is a significant risk.

Obtaining an Understanding of the Internal Audit Function (Ref: Para. XX-XX)

A32. In obtaining an understanding of the compliance framework, including controls, the assurance practitioner determines whether the entity has an internal audit function and its effect on the controls within the compliance framework. The internal audit function ordinarily forms part of the entity's internal control and governance structures. The responsibilities of the internal audit function may include, for example, monitoring of internal control, risk management, and review of compliance with laws and regulations, and is considered as part of the assurance practitioner's assessment of risk.

- A33. An effective internal audit function may enable the assurance practitioner to modify the nature and/or timing, and/or reduce the extent of assurance procedures performed, but cannot eliminate them entirely.

Obtaining Evidence

- A34. Compliance engagements require the application of assurance skills and techniques to gather sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. As the assurance practitioner performs planned procedures, the evidence obtained may differ significantly from that on which the planned procedures were based and cause the assurance practitioner to perform additional procedures. In the case of an attestation engagement, such procedures may include asking the responsible party to examine the matter identified by the assurance practitioner, and to make amendments to the description or Statement, if appropriate.
- A35. The assurance practitioner may become aware of a matter(s) that causes the assurance practitioner to believe that there are deficiencies in the compliance framework or the compliance activity is not compliant with the compliance requirements. In such cases, the assurance practitioner may investigate such differences by, for example, inquiring of the appropriate party(ies) or performing other procedures as appropriate in the circumstances.

Limited and Reasonable Assurance Engagements (Ref: Para. XX)

- A36. The level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, therefore the procedures the assurance practitioner performs in a limited assurance engagement are different in nature and timing from, and are less in extent than for, a reasonable assurance engagement. The primary differences between the assurance practitioner's overall responses to assessed risks and further procedures conducted in a reasonable assurance engagement and a limited assurance engagement on compliance include:
- (a) the emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the assurance practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on indirect evaluation of compliance activities, such as enquiries of the entity's personnel, and relatively less emphasis, on evaluation of compliance activities, such as observation, re-performance or inspection, than would may be the case for a reasonable assurance engagement.
 - (b) in a limited assurance engagement, the further procedures performed are less in extent than in a reasonable assurance engagement in that those procedures may involve:
 - (i) selecting fewer items for examination;
 - (ii) performing fewer types of procedures; or
 - (iii) performing procedures at fewer locations.

Work Performed by an Assurance Practitioner's Expert

- A37. ASAE 3000³¹ provides application material for the circumstances where an assurance practitioner's expert is involved in the engagement. This material may also be used as helpful guidance when using the work of another assurance practitioner or a responsible party's or evaluator's expert.

³¹ See ASAE 3000, paragraphs A120-A134.

Work Performed by Another Assurance Practitioner or a Responsible Party's or Evaluator's Expert, or an Internal Auditor

- A38. When information on compliance activities to be used as evidence has been prepared using the work of a responsible party's or evaluator's expert, the nature, timing and extent of procedures with respect to the work of the responsible party's or evaluator's expert may be affected by such matters as:
- (a) the nature and complexity of the compliance activity to which the expert's work relates;
 - (b) the risks of a material deficiency in the compliance framework or non-compliance with the compliance requirements during the period;
 - (c) the availability of alternative sources of evidence or mitigating controls;
 - (d) the nature, scope and objectives of the expert's work;
 - (e) whether the expert is employed by the entity, or is a party engaged by it to provide relevant services;
 - (f) the extent to which responsible party or evaluator can exercise control or influence over the work of the expert;
 - (g) whether the expert is subject to technical performance standards or other professional or industry requirements;
 - (h) the nature and extent of any controls within the entity over the expert's work;
 - (i) the assurance practitioner's knowledge and experience of the expert's field of expertise; and
 - (j) the assurance practitioner's previous experience of the work of that expert.

Work Performed by the Internal Audit Function (Ref: Para. XX-XX)

- A39. The nature, timing and extent of the assurance practitioner's procedures on specific work of the internal auditors will depend on the assurance practitioner's assessment of the significance of that work to the assurance practitioner's conclusions, the evaluation of the internal audit function and the evaluation of the specific work of the internal auditors. Such procedures may include:
- (a) examination of evidence of the operation of the compliance activity already examined by the internal auditors;
 - (b) examination of evidence of the operation of other instances of the same compliance activity;
 - (c) examination of the outcomes of monitoring of controls by internal auditors; and
 - (d) observation of procedures performed by the internal auditors.
- A40. Irrespective of the degree of autonomy and objectivity of the internal audit function, such a function is not independent of the entity as is required of the assurance practitioner when performing the engagement. The assurance practitioner has sole responsibility for the conclusion expressed in the assurance report, and that responsibility is not reduced by the assurance practitioner's use of the work of the internal auditors.

Evaluation and Communication of Non-Compliance

- A41. In evaluating any non-compliance with the compliance requirements the assurance practitioner ordinarily considers materiality as specified in the terms of the engagement, any relevant legislative, regulatory or other (e.g. contractual) requirements which may apply and the effect on the decisions of the intended users of the assurance report and the assurance practitioner's conclusion.
- A42. For both reasonable and limited assurance engagements, if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether a material non-compliance exists, the assurance practitioner would ordinarily pursue the matter by performing other evidence gathering procedures sufficient to enable the assurance practitioner to form a conclusion.

Written Representations

- A43. For application material on using written representations refer to ASAE 3000.³²
- A44. The person(s) from whom the assurance practitioner requests written representations will ordinarily be a member of senior management or those charged with governance. However, because management and governance structures vary by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics, it is not possible for this ASAE to specify for all engagements the appropriate person(s) from whom to request written representations. The process to identify the appropriate person(s) from whom to request written representations requires the exercise of professional judgement.

Subsequent Events

- A45. Assurance procedures with respect to the identification of subsequent events after period end are limited to examination of relevant reports, for example reports on compliance procedures, minutes of relevant committees and enquiry of management or other personnel as to significant non-compliance with ~~compliance~~~~control~~ procedures.
- ~~A46. The matters identified may provide:~~
- ~~(a) additional evidence or reveal for the first time conditions that existed during the period on which the assurance practitioner is reporting; or~~
- ~~(b) evidence about conditions that existed subsequent to the period on which the assurance practitioner is reporting that may significantly affect the operation of the compliance procedures.~~
- ~~A47. In the circumstances described in paragraph A46(a), the assurance practitioner reassesses any conclusions previously formed that are likely to be affected by the additional evidence obtained.~~
- ~~A48. In the circumstances described in paragraph A46(b) when the assurance practitioner's report has not already been issued:~~
- ~~(a) in an attestation engagement, the assurance practitioner:~~
- ~~(i) includes an Emphasis of Matter where the responsible party's Statement is available to users and adequately discloses the subsequent event; or~~
- ~~(ii) issues a qualified conclusion if the responsible party's Statement is available to users and does not adequately disclose the subsequent event; and~~

³² See ASAE 3000, paragraphs A136-A139.

~~(b) in a direct engagement, the assurance practitioner includes a paragraph in the assurance report headed “Subsequent Events” describing the events and indicating that the subsequent events do not impact the assurance conclusion but they may affect the future effectiveness of the compliance procedures.~~

~~A49.~~ A46. The assurance practitioner does not have any responsibility to perform procedures or make any enquiry after the date of the report. If however, after the date of the report, the assurance practitioner becomes aware of a matter identified ~~in paragraph A46~~, the assurance practitioner considers re-issuing the report. In an attestation engagement where the report has already been issued, the new report includes an Emphasis of Matter discussing the reason for the new report. In a direct engagement, the new report discusses the reason for the new report under a heading “Subsequent Events”.

Forming the Assurance Conclusion

Preparing the Assurance Report

Assurance Report Content

~~A50.~~ A47. The assurance practitioner may expand the report to include other information not intended as a qualification of the assurance practitioner’s conclusion. If the report includes other information it is a long-form report as the information is additional to the basic elements required in paragraph XX for a short-form report. This additional information may be required by regulation or agreed in the terms of the engagement to meet the needs of users. When considering whether to include any such information the assurance practitioner assesses the materiality of that information in the context of the objectives of the engagement. Other information is not to be worded in such a manner that it may be regarded as a qualification of the assurance practitioner’s conclusion and may include for example:

- Relevant background information and historical context.
- The assurance approach.
- Underlying facts and criteria applied.
- Disclosure of materiality levels.
- Findings relating to particular aspects of the compliance engagement.
- Analysis of the causes of non-compliance with the compliance requirements.
- Recommendations for improvements to address identified compliance framework deficiencies.

~~A51.~~ A48. In some circumstances, the form and/or content of the assurance report is prescribed by law or regulation. In such cases, the assurance practitioner compares the prescribed report with the reporting requirements under this ASAE to ensure the minimum basic elements have been met.

Specific Purpose

~~A52.~~ The assurance practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the assurance practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Summary of the Work Performed

~~A53.~~A49. The summary of the work performed helps the intended users understand the nature of the assurance conveyed by the assurance report. For many assurance engagements, infinite variations in procedures are possible in theory. It may be appropriate to include in the summary a statement that the work performed included evaluating the suitability of the compliance requirements and the risks that threaten achievement of those compliance requirements.

~~A54.~~A50. In a limited assurance engagement an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the conclusion, therefore the summary of the work performed is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of procedures. It also may be appropriate to indicate certain procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement. However, a complete identification of all such procedures may not be possible because the assurance practitioner's required understanding and consideration of engagement risk is less than in a reasonable assurance engagement.

~~A55.~~A51. Factors to consider in determining the level of detail to be provided in the summary of the work performed include:

- (a) circumstances specific to the entity (e.g. the maturity of the entity's compliance framework compared to those typical in the sector);
- (b) specific engagement circumstances affecting the nature and extent of the procedures performed; and
- (c) the intended users' expectations of the level of detail to be provided in the report, based on market practice, or applicable law or regulation.

~~A56.~~A52. It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the assurance practitioner's conclusion. In most cases this will not involve relating the entire work plan, but on the other hand it is important for it not to be so summarised as to be ambiguous, nor written in a way that is overstated or embellished.

~~A57.~~A53. Illustrative examples of assurance practitioner's reports are contained in Appendix X.

Intended Users and Specific Purposes of the Assurance Report (Ref: Para. XX)

~~A58.~~A54. If the assurance practitioner's report on compliance has been prepared for a specific purpose and is only relevant to the intended users, this is stated in the assurance practitioner's report. In addition, the assurance practitioner may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.

Modified Conclusions (Ref: Para. XX-XX)

~~A59.~~A55. Modifications to the assurance report may be made in the following circumstances:

- (a) a qualified conclusion may be issued if the following matters are material but not pervasive:
 - (i) unsuitable criteria mandated by legislation or regulation;
 - (ii) scope limitation;
 - (iii) non-compliance with the compliance requirements;

- (iv) misstatement in the Statement;
- (b) an adverse conclusion may be issued if the following matters are both material and pervasive:
 - (i) unsuitable criteria mandated by legislation or regulation;
 - (ii) systemic deficiency in the compliance framework;
 - (iii) misstatement in the Statement;
- (c) a disclaimer may be issued if there is a limitation of scope which is both material and pervasive.

| ~~A60.~~**A56.** Illustrative examples of elements of modified assurance practitioner's reports are contained in Appendix X.

| ~~A61.~~**A57.** Even if the assurance practitioner has expressed an adverse conclusion or a disclaimer of conclusion, it may be appropriate to describe in the basis for modification paragraph the reasons for any other matters of which the assurance practitioner is aware that would have required a modification to the conclusion, and the effects thereof.

| ~~A62.~~**A58.** When expressing a disclaimer of conclusion, because of a scope limitation, it is not ordinarily appropriate to identify the procedures that were performed nor include statements describing the characteristics of the assurance practitioner's engagement; to do so might overshadow the disclaimer of conclusion.

Other Communication Responsibilities

| ~~A63.~~**A59.** Appropriate actions to respond to the circumstances identified in paragraph XX may include:

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the entity.
- Communicating with third parties (for example, a regulator) when required to do so.
- Modifying the assurance practitioner's conclusion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

| ~~A64.~~**A60.** Certain matters identified during the course of the engagement may be of such importance that they would be communicated to those charged with governance. Unless stated otherwise in the terms of engagement, less important matters would be reported to a level of management that has the authority to take appropriate action.

Documentation

| ~~A65.~~**A61.** For application material on preparing and maintaining documentation refer ASAE 3000.³³

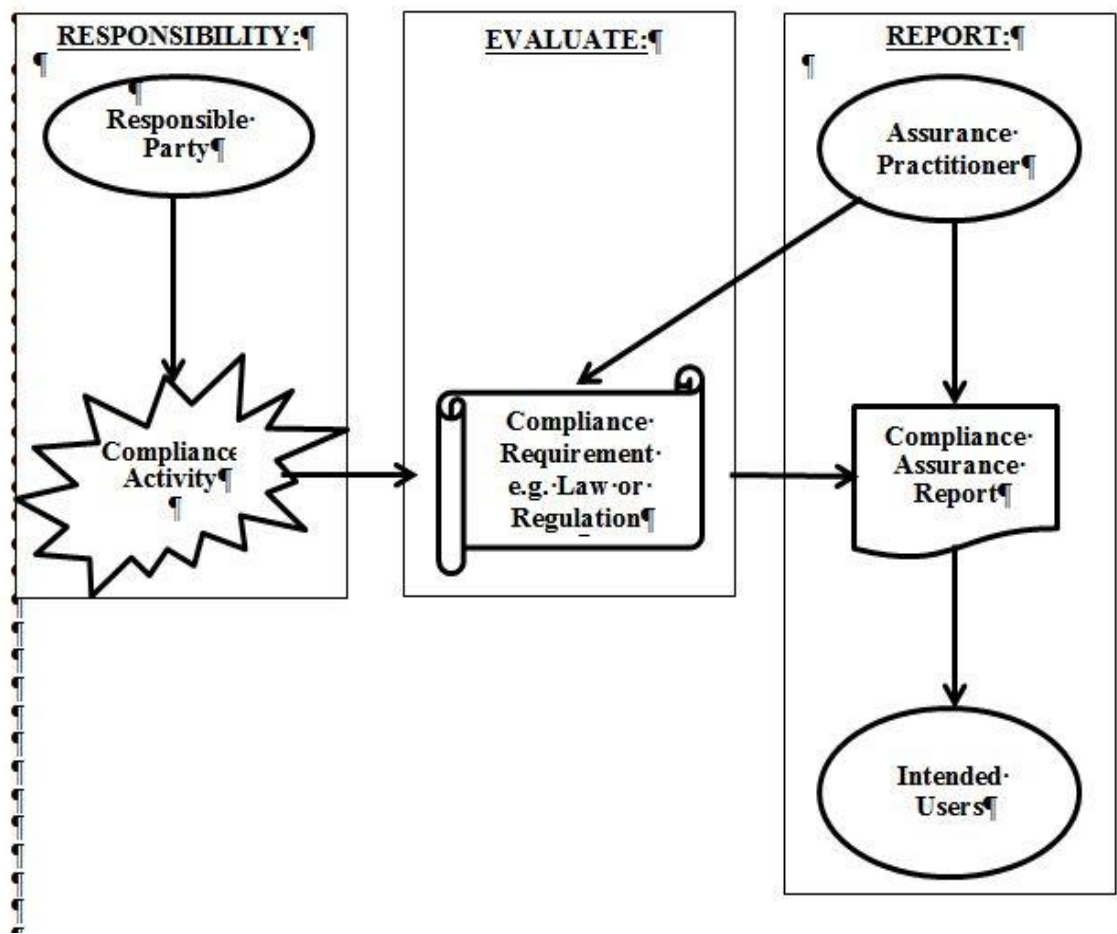
³³ See ASAE 3000, paragraphs A193-A200.

Appendix 1

(Ref: Para.)

ROLES AND RESPONSIBILITIES – DIRECT AND ATTESTATION COMPLIANCE ENGAGEMENTS

The diagram below illustrates the relationships in a direct and attest^{ation} compliance engagement conducted by an Assurance Practitioner.



Under a direct engagement, the Assurance Practitioner evaluates the compliance activity, conducted by the responsible party against the compliance requirement.

Under an attestation engagement, the Responsible Party evaluates the compliance activity against the compliance requirements and provides a statement on the compliance outcome.

In both attestation and direct engagements the Assurance Practitioner evaluates the compliance activity against the compliance requirement(s) and obtains assurance on which to base their compliance assurance report. The assurance report is provided to the intended users.

Appendix 2

(Ref: Para.)

NATURE OF ASSURANCE ENGAGEMENTS ON COMPLIANCE

Scope of the Engagement

A summary of the scope of assurance engagements which may be conducted with respect to compliance is set out in the following table:

Scope of Engagement / Compliance objective	Compliance Requirement	Subject Matter / Compliance Activity	Criteria for Evaluating Compliance Activity	Compliance Outcome of the Evaluation (Subject Matter Information)	Assurance Conclusion
Compliance of the Real Estate Trust with the requirements of the property Agents and Motor dealers Act 2000 (the “Act”)	<u>Applicable compliance requirements as specified under s407 of the Act</u> <u>As an example: maintenance and controls over the Trustee Bank Account</u>	Trustee Account procedures Trustee Bank Account and cash book procedures	s407 of the Act	Evaluator’s Statement or assurance practitioner’s conclusion whether the Trust has complied in all material respects with the Act.	Reasonable Assurance – complied in all material respects with the Act.
Compliance of the Registered Superannuation Entity (RSE) with the requirements of the Superannuation Industry (Supervision) Act 1993 (SIS Act), Superannuation Industry (Supervision) Regulations, FSCODA Reporting Standards, Corporations Act 2001 (Corporations Act) and Corporations Regulation 2001 (Corporation Regulations)	<u>Applicable compliance requirements of the SIS Act, SIS Regulations, FSCODA, Corporations Act and Corporations Regulation, conditions C1, C5, E1, F1, G1 contained in s29EA of the Act.</u>	As an example: RSE procedures covering: • minimum liquid assets • bank accounts • net tangible assets • approved guarantee	Relevant specific sections of: SIS Act SIS Regulations Corporations Act Corporation Regulations FSCODA Reporting Standards Conditions imposed under s29EA of the Act	Evaluator’s Statement or assurance practitioner’s conclusion whether the RSE has complied in all material respects with the requirements of the applicable SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations, conditions imposed under s 29EA of the Act.	Reasonable Assurance – complied in all material respects with requirements of the applicable SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations, conditions imposed under s29EA of the Act.

Proposed Standard on Assurance Engagements ASAE 3100
Compliance Engagements

<u>Scope of Engagement / Compliance objective</u>	<u>Compliance Requirement</u>	<u>Subject Matter / Compliance Activity</u>	<u>Criteria for Evaluating Compliance Activity</u>	<u>Compliance Outcome of the Evaluation (Subject Matter Information)</u>	<u>Assurance Conclusion</u>
Compliance of a General Insurer or Insurance Group with the requirements of Prudential Standard GPS 220 <i>Risk Management</i> to maintain a Risk Management Strategy (RMS) and Prudential Standard GPS 230 <i>Reinsurance Management</i> to maintain a Reinsurance Management Strategy (REMS)	<u>Applicable compliance requirements as specified in GPS 220 and GPS 230.</u>	General Insurers or Insurance Groups maintenance of an RMS and a REMS.	GPS 220 Risk Management (RMS) and GPS 230 Reinsurance Management (REMS)	Evaluator's Statement or assurance practitioner's conclusion whether the General Insurer or Insurance Group has complied in all material respects with its RMS and REMS.	Limited Assurance – nothing has come to our attention that causes us to believe that for [the period] the General Insurer or Insurance Group did not comply in all material respects with its RMS and REMS.

Draft

STANDARDS APPLICABLE TO ENGAGEMENTS ON COMPLIANCE

		APPLICABLE AUASB STANDARDS				
		ASAE 3000 Assurance Engagements (not Historical Financial Info)	ASAE 3100 Assurance Engagements on Compliance (This ASAE)	ASAE 3402 Controls at a Service Organisation	ASAE 3150 Controls Engagements	ASRS 4400 Agreed-upon Procedures
Subject Matter of Compliance Assurance Engagement	1. Entity's compliance with:					
	- Laws and regulation	✓	✓			
	- Contractual obligations	✓	✓			
	- Policies and procedures	✓	✓			
	2. Entity's controls over compliance with requirements ³⁴	✓			✓	
	3. Entity's compliance with requirements specifying controls	✓	✓			
	4. Service Organisation's controls:					
	- Relevant to user entities' non-financial reporting, services or functions	✓			✓	
	- Relevant to user entities' financial reporting	✓		✓		
	5. Controls over economy, efficiency or effectiveness	✓			✓	
	6. Procedures restricted to those specified by engaging party					✓

³⁴ Where controls not specified in law, regulation or quasi-regulation.

Appendix 4

(Ref: Para.)

EXAMPLE ENGAGEMENT LETTER

Appendix 54

(Ref: Para.)

EXAMPLE ASSURANCE REPORTS ON COMPLIANCE

Appendix 65

(Ref: Para.)

**EXAMPLE MODIFIED REASONABLE ASSURANCE REPORTS ON
COMPLIANCE**

Tables of Differences — ASAE 3100 and Existing ASAE 3100***Summary of Main Differences — ASAE 3100 and Existing ASAE 3100***

The table below details the main differences (excluding editorial amendments) between this proposed Standard on Assurance Engagements and existing ASAE 3100.

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract	Commentary

Draft

Revision of ASAE 3100 Compliance Engagements

Agenda Item 8(a).2
AUASB Meeting 15 Sept 2015

Project Timeline		2015												2016	
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
AUASB Meetings			27-Feb		16-Apr		4-Jun	23-Jul		10-Sep	2-Oct	26-Nov			25-Feb
	Project activity/milestone														
1	Background research														
2	Project plan approved by AUASB		●✓												
3	1st PAG meeting			●		✓ ¹									
4	Issues paper developed & considered by AUASB				●		✓								
5	2nd PAG Meeting					●		✓							
6	1st draft considered by AUASB						●	●✓							
7	3rd PAG Meeting								●✓						
8	2nd draft ED to AUASB for comment														
9	Final ED approved for exposure by AUASB									●		●			
10	ED 60 day exposure period										●	●			
11	Analysis of ED comments in disposition & redrafting												●		
12	Regulatory Impact Assessment/RIS submitted and OBPR clearance obtained										●				
13	Update regulatory impact assessment if necessary														
14	4th PAG Meeting														
15	ED comments considered & disposition presented to AUASB												●		●
16	Final Standard, explanatory memorandum & basis for conclusions prepared and approved by AUASB														●
17	Final QA and issue revised and redrafted ASAE 3100												●		●
Legend															
	Project activity - planned														
	Project activity - actual met plan														
	Project deliverable - planned														
	Project deliverable - actual met plan														
	Project activity - actual later than planned														
	Project deliverable - actual later than planned														
	Project Activity - amended plan														
	Project deliverable - amended plan														
	Project deliverable - actual met amended plan														
Notes/Reasons for change from project plan															

Revision of ASAE 3100 Compliance Engagements

Project Timeline		
		Mar
AUASB Meetings		
	Project activity/milestone	
1	Background research	
2	Project plan approved by AUASB	
3	1st PAG meeting	
4	Issues paper developed & considered by AUASB	
5	2nd PAG Meeting	
6	1st draft considered by AUASB	
7	3rd PAG Meeting	
8	2nd draft ED to AUASB for comment	
9	Final ED approved for exposure by AUASB	
10	ED 60 day exposure period	
11	Analysis of ED comments in disposition & redrafting	
12	Regulatory Impact Assessment/RIS submitted and OBPR clearance obtained	
13	Update regulatory impact assessment if necessary	
14	4th PAG Meeting	
15	ED comments considered & disposition presented to AUASB	
16	Final Standard, explanatory memorandum & basis for conclusions prepared and approved by AUASB	
17	Final QA and issue revised and redrafted ASAE 3100	
Legend		
	Project activity - planned	
	Project activity - actual met plan	
•	Project deliverable - planned	
•✓	Project deliverable - actual met plan	
	Project activity - actual later than planned	
✓	Project deliverable - actual later than planned	
- - -	Project Activity - amended plan	
•	Project deliverable - amended plan	
•✓	Project deliverable - actual met amended plan	
Notes/Reasons for change from project plan		



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(a)**

Meeting Date: 15 September 2015

Subject: ASAE / SAE 3100 Compliance Engagements

Date Prepared: 1 September 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To consider the second draft ED XX of ASAE / SAE 3100 *Compliance Engagements* for feedback.

Background

1. ASAE 3100 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified some matters to be addressed in any future revisions to ASAE 3100.
2. The NZAuASB also completed a post-implementation survey for SAE 3100 in April 2015 and any matters raised will also be addressed by the NZAuASB in their revision of SAE 3100 and considered by the AUASB in the revision of ASAE 3100 to ensure consistency.
3. The AUASB approved a project plan to revise ASAE 3100 at the 24 February AUASB meeting.

Matters to Consider

Part A – General

1. The 2nd draft ED provided to the AUASB for consideration and comment includes all PAG comments and suggestions from the PAG meetings held on Thursday, 23 July and Monday, 31 August. Key areas addressed in the 2nd draft are as follows:
 - Inclusion of Appendix 2 – Nature of Assurance Engagements on Compliance – to assist in defining the terminology adopted in the standard e.g. compliance requirements, compliance activity and compliance outcome.
 - Issues regarding the differences in the risk assessment procedures for reasonable and limited engagements – table has been included at paragraph 34 for clearer differentiation.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- Tightening up of terminology used in the ED and ensuring that appropriate definitions of such terminology have been adequately included, for example: compliance objective, compliance requirements, compliance outcome and compliance activity.
- Further inclusions in the draft ED for consideration by the AUASB:
 - Application and other Explanatory material
 - Appendix 1 – Roles and Responsibilities – Direct and Attestation Compliance Engagements
 - Appendix 2 – Nature of Assurance Engagements on Compliance
 - Appendix 3 – Standards Applicable to Engagements on Compliance

Part B – NZAuASB

1. This is a joint project with NZAuASB, as they currently have SAE 3100 *Compliance Engagements* (August 2011) which is in clarity format however needs to be revised to remain consistent with ISAE 3000 (revised) and ASAE 3100 (revised).
2. The NZAuASB Technical Group are providing a first draft of the ED (as provided to the AUASB at its 28 July meeting) to the NZAuASB for consideration at their 2 September meeting.

AUASB Technical Group Recommendations

The AUASB to consider and provide feedback on the second draft ED XX of ASAE / SAE 3100 *Compliance Engagements*.

Material Presented

Agenda Item 8(a)	AUASB Board Meeting Summary Paper
Agenda Item 8(a).1	Draft ED XX ASAE / SAE 3100 <i>Compliance Engagements</i>
Agenda Item 8(a).2	Project Timeline

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider 2 nd Draft ED XX ASAE / SAE 3100.	Feedback from AUASB on Draft ED XX ASAE / SAE 3100.	AUASB	15 September 2015	Pending



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 8(b)

Meeting Date: 15 September 2015

Subject: NZAuASB Project on Service Performance Information / AASB Project on ED 270 Reporting Service Performance Information

Date Prepared: 3 September 2015

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

To update the AUASB on the progress of the NZAuASB project to develop an assurance standard on service performance information and the AASB's project on ED 270 Reporting Service Performance Information.

Background

1. The AASB and NZ AASB are running projects in parallel to develop an Accounting Standard in each jurisdiction on Service Performance Reporting. The AASB Standard will be directed at public and private sector Not-for-Profits which report Service Performance Information, either voluntarily or by legislative requirement (such as pursuant to the PGPA Act) in Australia, which may be reported at the same time or separately from the financial report. In contrast, in NZ, the Service Performance Report will form part of the General Purpose Financial Report (GPFR) for Public Benefit Entities (PBE). The AASB's Standard was approved as ED 270 and issued for comment in late August 2015 and the NZ AASB's ED is likely to be issued later in the year. The AASB's comment period is open until February 2016 refer to [AASB website](#).
2. At the 11 June 2015 NZAuASB meeting, the NZ Board approved a project to develop a NZ Auditing Standard on service performance information. The NZAuASB have set up a Working Group to advise on development of the Standard. At the previous AUASB meeting on 9 June, the AUASB was informed that the Chairman was keen for the AUASB to participate as necessary in this project.

Matters to Consider

Part A – General

1. The AUASB will liaise with the NZAuASB Working Group through a Technical Group member, on Service Performance Information and Merran Kelsall as a member of the NZAuASB attends all meetings where relevant agenda items are presented. As there are no legislative requirements for assurance on service performance information reported in Australia, no project is yet proposed for development of an Australian Auditing or Assurance Standard on the Service Performance

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Information. The outcome of the NZ project may be considered for applicability or adaption to the Australian environment in due course.

2. However it should be noted that the NZAuASB assurance standard being developed is part of the ISA (NZ) series as it provides for assurance over information to be included in the GPFR. In Australia this would not be the case as the Service Performance Information is reported separately to the GPFR and therefore there is currently no mandatory requirement for it to be audited. If the information were reported in the GPFR as the entity chose to do so even though this is not required then this “other information” would be covered by ASA 720 requirements. If an assurance standard were developed in Australia it would most likely be part of the ASAE suite of standards.

Part B – NZAuASB

1. At the NZAuASB meeting on 22 July 2015, the Board considered an issues paper and outline of a draft Auditing Standard on Service Performance Information. The Standard is being drafted as an Auditing Standard because the service performance information will form part of the GPFR in NZ, for PBEs. Consequently it will be audited at the same time as the financial information and will be integral to the annual financial audit. An AUASB Technical Group member attended the 22 July NZAuASB meeting by teleconference for that agenda item and participated in the discussion.
2. At the NZAuASB meeting on 2nd September 2015 a verbal update was given on the progress of the project which was attended by Merran Kelsall as an NZAuASB member.

Material Presented

Agenda Item 8(b)

AUASB Board Meeting Summary Paper

EXPOSURE DRAFT

ED XX/15
(XX XXXX)

Proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements*

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

Draft

DISCLAIMER

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



Australian Government
Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later than . Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ED XX/15

The AUASB issues exposure draft ED XX/15 of proposed Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to the requirements of the legislative provisions explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate assurance standards for other purposes.

Main Proposals

This proposed Standard on Assurance Engagements establishes requirements and provides application and other explanatory material regarding the conduct of and reporting on assurance engagements on performance. The standard replaces Standard on Assurance Engagements ASAE 3500 *Performance Engagements*, issued by the AUASB in July 2008 and last revised in October 2008. This Standard on Assurance Engagements facilitates conformity with current AUASB Standards ~~and revised ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued in June 2014~~. The standard reflects best practice in performance engagements and clarifies how to scope, conduct and report on an assurance engagement on performance, to ensure that assurance engagement quality is maintained and where necessary improved.

Proposed Operative Date

It is intended that this proposed Standard on Assurance Engagements will be operative for assurance engagements commencing on or after 1 July 2016 with early adoption permitted.

Main changes from existing ASAE 3500 *Performance Engagements* (October 2008)

The main differences between this proposed Standard on Assurance Engagements and the Standard on Assurance Engagements that it supersedes, ASAE 3500 *Performance Engagements* (October 2008), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of ASAE 3500 *Performance Engagements* by no later than ~~XX October XXX 2015~~⁶. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for assurance practitioners and the business community arising from compliance with the main changes to the requirements of this proposed standard? If there are significant costs, do these outweigh the benefits to the users of performance engagements?
5. Will there be any difficulties in implementing the requirements?

65. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Standard on Assurance Engagements, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard on Assurance Engagements.

Draft

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3500 *Performance Engagements* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with ASA 100 *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied, ~~and ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which provides the overarching requirements for all assurance engagements other than those engagements relating to historical financial information.~~

Draft

Conformity with International Standards on Assurance Engagements

This Standard on Assurance Engagements has been made for Australian public interest purposes and accordingly there is no equivalent International Standard on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Draft

STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3500

Performance Engagements

Application

1. This Standard on Assurance Engagements applies to direct ~~assurance~~ engagements to provide ~~an~~ a reasonable assurance report on performance of an activity.

Operative Date

2. This Standard on Assurance Engagements is operative for assurance engagements commencing on or after 1 July 2016, with early adoption permitted prior to this date.

Introduction

Scope of this Standard on Assurance Engagements

3. This Standard on Assurance Engagements (ASAE) deals with direct ~~assurance~~ engagements undertaken by an assurance practitioner to provide a ~~reasonable~~ assurance report on ~~whether~~ an activity's performance achieved-evaluated against identified ~~performance objectives~~ criteria, during the period. This ASAE may be applied to attestation performance engagements, adapted and supplemented as necessary in the engagement circumstances.
4. This ASAE addresses assurance engagements on performance:
 - (a) ~~of any activity, whether within an entity or across multiple entities; in achieving outputs or outcomes;~~
 - (b) with respect to identified performance principles;
 - ~~(b)(c) evaluated against criteria selected or developed by the assurance practitioner or the engaging party the achievement of either overall or specific performance objectives;~~
 - ~~(c)(d) providing a limited or reasonable assurance conclusion; and~~
 - ~~(d)(e) for either restricted use, by the engaging party or specified third parties, or to be publicly available, through tabling in Parliament or publication other means of distribution.~~
5. This ASAE is written for reasonable assurance direct engagements but may be applied to limited assurance direct engagements, adapted as necessary to reflect the lower level of assurance obtained by the assurance practitioner.
- 4.6. Agreed-upon procedures engagements, where procedures are conducted and factual findings are reported but no conclusion is provided, and consulting engagements, for the purpose of providing advice, on performance are not assurance engagements and are not dealt with in this ASAE. Agreed-upon procedures engagements are addressed under Standard on Related Services, ASRS 4400.¹

Nature of a Performance Engagement

7. The essential elements of performance engagements are:
 - (a) a three party relationship involving:

¹ See ASRS 4400 *Agreed upon Procedures Engagements to Report Factual Findings*.

- (i) an assurance practitioner, often a state, territory or national auditor-general;
 - (ii) a responsible party or a number of responsible parties involved in the activities which are the subject matter of the engagement; and
 - (iii) intended users, which are often Parliament and the general public;
 - (b) an appropriate activity (the subject matter);
 - (c) suitable criteria;
 - (d) sufficient appropriate evidence; and
 - (e) a written assurance report.
8. Performance engagements are most commonly conducted in the public sector, on an activity delivered or controlled by the Government, either directly through an agency, department or government entity or through provision of a grant or subsidy. Performance engagements are initiated by a State, Territory or the National Auditor-General under their legislative mandate, but can also be conducted in the private sector. The purpose of a performance engagement is to evaluate the performance, with respect to selected performance principles (usually economy, efficiency or effectiveness, but could also address other principles, such as probity, ethical responsibility or environmental responsibility) of an activity in achieving intended outputs or outcomes. The scope of a performance engagement is either determined by an auditor-general based on meet the assessed information needs of Parliament, Government or the general public, when conducted by an Auditor General, or by the engaging party based on the information needs of the engaging party and other identified users, when conducted in the private sector regarding whether those activities are economical, efficient or effective, and may extend to other matters such as ethical or low environmental impact.
5. Performance engagements are usually initiated by a state, territory or the national auditor-general and will not involve an engaging party, but may also be accepted by an assurance practitioner from an engaging party in the private sector. The Auditor General selects activities as the subject of a performance engagement based on the priorities of their Audit Office. The authority of an auditor-general to conduct of a performance engagement will derive from their legislative mandate, of the Auditor General and consequently the engaging party is by reference Parliament or the Government. In these circumstances the party responsible for the activity does not usually initiate the performance engagement and their agreement to the terms of engagement is not usually required. The roles and responsibilities of the parties to a performance engagement in the public sector are illustrated in Appendix 1.
6. Performance engagements may also be conducted in the private sector, in which case the engaging party will usually be the entity responsible for the activity which is subject to the performance engagement. In these circumstances terms of engagement would be agreed with the engaging party.
- 7.9. The style and content of reports for performance engagements in the public sector may vary between jurisdictions and not align with the requirements of ASAE 3000 or this ASAE. This ASAE provides requirements with respect to reporting in these circumstances. The roles and responsibilities of the parties to a performance engagement initiated by an auditor-general are illustrated in Appendix 1.

Relationship with ASAE 3000, Other Pronouncements and Other Requirements

- 8.10. This ASAE adapts the requirements in ASAE 3000, which is written for attestation engagements, as necessary, to direct engagements on performance and identifies the requirements of ASAE 3000 which the assurance practitioner is required to comply with in conducting a performance engagement in addition to the requirements of this ASAE. ASAE 3000 includes requirements in relation to such topics as engagement acceptance, planning,

obtaining evidence and documentation that apply to all assurance engagements, including engagements conducted in accordance with this ASAE. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ASAE and ASAE 3000.

9. ~~Compliance~~ ~~This ASAE requires the assurance practitioner to apply the~~ with ASAE 3000 requires, among other things, ~~ment~~ that the assurance practitioner to complies with relevant ethical requirements related to assurance engagements. It also requires the audit office of the auditor-general to apply ASQC 1 or the lead assurance practitioner to be a member of a firm that applies ASQC 1.

11.

10. ~~An assurance engagement performed under this ASAE may be part of a larger engagement. In such circumstances, this ASAE is relevant only to the section of the engagement relating to assurance on performance.~~

- 11.12. If multiple standards are applicable to the assurance engagement, the assurance practitioner applies, in addition to ASAE 3000, either:

- (a) if the engagement can be separated into sections, the standard relevant to each section of the engagement, including this ASAE for the section on performance; or
- (b) if the engagement cannot be separated into sections, the standard which is most directly relevant to the subject matter.

13. In circumstances when a performance engagement includes a compliance section, the assurance practitioner needs to apply both ASAE 3100 and ASAE 3500 as applicable, in conducting the assurance engagement. However, if there is any inconsistency, ASAE 3500 applies.

- 12.14. Assurance conclusions on performance may be required by Parliament, legislation, industry bodies or other users in conjunction with assurance conclusions on financial reports, other historical financial information, compliance, controls and/or other subject matters. In these engagements the subject matter, criteria against which that subject matter is evaluated and the level of assurance sought may vary, in which case different standards will apply. Assurance reports ~~can~~ includes separate sections for each subject matter, criteria or level of assurance in order that the different matters concluded upon are clearly differentiated.

- 13.15. A table showing the AUASB Standards to apply to performance engagements depending on the subject matter and engagement circumstances is contained in Appendix ~~2~~ 3.

Objectives

- 14.16. The objectives of the assurance practitioner for a performance engagement are:

- (a) to obtain ~~either~~ reasonable ~~or limited~~ assurance about an activity's performance in achieving intended outputs or outcomes against identified criteria ~~whether, in all material respects, the activity achieved the identified performance objectives~~, during the period; and
- (b) to express a reasonable assurance conclusion through a written report on the matters in (a) above which ~~expresses either a reasonable or limited assurance conclusion and~~ describes the basis for the conclusion.

Definitions

- 15.17. For the purposes of this Standard on Assurance Engagements, the following terms have the meanings attributed below:

- (a) Activity—a government or private sector ~~undertaking,~~ provision of products or services, system, operation, function or programme which may be conducted within a single entity or across multiple entities, ~~departments, agencies, joint ventures or other organisations,~~ within a single jurisdiction or across multiple jurisdictions.
- (b) ~~Assurance practitioner—individual or firm or other organisation., whether in public practice, industry and commerce, or the public sector, providing assurance services including performance engagements. Where this ASAE expressly intends that a requirement or responsibility be fulfilled by the lead assurance practitioner, the term the “lead assurance practitioner” rather than “assurance practitioner” is used.~~
- (b)(c) Attestation engagement—An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. The outcome of that measurement or evaluation is often presented in a report or statement.
- Criteria—The benchmarks used to measure or evaluate the underlying subject matter, which in a performance engagement is the activity, ~~which in a performance engagement are the identified performance objectives.~~ The “applicable criteria” are the criteria used for the particular engagement.
- (d) ~~Deficiency in performance—A failure to achieve a performance objective in whole or in part~~
- (e) .
- (d)(e) Direct engagement on performance—A reasonable ~~or limited~~ assurance engagement in which the assurance practitioner evaluates the activity’s performance against the ~~performance objectives~~ criteria. The outcome of the assurance practitioner’s evaluation is expressed in the assurance practitioner’s conclusion.
- (f) Economy—the performance principle relating to the minimisation of the costs of resources, within the operational requirements of timeliness, availability of required quantity and quality.
- (g) Effectiveness—the performance principle relating to the extent to which the intended outputs or outcomes are achieved.
- (h) Efficiency—the performance principle relating to the minimisation of inputs employed to deliver the intended outputs in terms of quality, quantity and timing.
- (i) Engagement risk—the risk that the assurance practitioner expresses an inappropriate conclusion.
- (e)(j) Engaging party—The party(ies) that engages the assurance practitioner to perform the assurance engagement. In an engagement initiated by an auditor-general there will not normally be an engaging party as the State, Territory or Federal Parliament may provide a broad the mandate for the auditor-general to conduct performance engagements, but will not usually engage the auditor-general to perform specific performance engagements, ~~in which case there may be no engaging party.~~
- (k) Environmental responsibility—the performance principle of minimising the environmental impacts of the activity.
- (l) Ethical responsibility—the performance principle of maximising the ethically acceptable or socially responsible manner by which the activity is conducted.
- (f)(m) Intended users—Parliament, individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there

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may be intended users other than those to whom the assurance report is addressed, such as the general public if the assurance report is ~~published~~made publicly available.

~~(g)~~(n) **Limited assurance engagement**—An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe the activity has not performed with respect to the selected performance principles in achieving the identified performance objectives outputs or outcomes, as evaluated by the criteria. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the performance of the activity to a degree that is clearly more than inconsequential.

~~(h)~~ **Long form report**—~~Assurance report including recommendations, other information or explanations that are intended to meet the information needs of users but not to affect the assurance practitioner's conclusion. In addition to the matters required to be contained in the assurance practitioner's report, as set out in paragraph 41, long form reports may describe in detail matters such as:~~

- ~~(i) the terms of the engagement;~~
- ~~(ii) the detailed criteria being used, such as the specific performance objectives;~~
- ~~(iii) descriptions of the assurance procedures that were performed;~~
- ~~(iv) findings relating to the assurance procedures that were performed or particular aspects of the engagement;~~
- ~~(v) details of the qualifications and experience of the assurance practitioner and others involved with the engagement;~~
- ~~(vi) disclosure of materiality levels; or~~
- ~~(vii) recommendations for improvements in the activities to better achieve the performance objectives.~~

~~The assurance practitioner may find it helpful to consider the significance of providing such information to meet the needs of the intended users. As required by paragraph 40, additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner as make it clear that it is not intended to alter or detract from that conclusion.~~

~~(i)~~(o) **Outcomes**—the impacts on society or segments of society, which occur as a result of, or are reasonably attributable to the activity's outputs.

~~(j)~~(p) **Outputs**—goods and/or services provided by an activity to external recipients and include (but are not limited to):

- (i) services provided directly to individuals and/or institutions, for example, health or education services or the provision of goods such as food or books;

- (ii) services provided indirectly to individuals and/or institutions, for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;
- (iii) transfers to individuals and/or institutions, for example, cash transfers and the provision of economic incentives such as tax incentives;
- (iv) provision of policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and
- (v) collection of taxes and other revenues.

(q) Materiality- in relation to performance of an activity, the shortcomings in performance that have the potential to affect the decisions of users with respect to the matters effecting the activity, including resource allocation.

~~(k)~~(r) Performance engagement—An assurance engagement to conclude on ~~whether the performance, in the context of identified performance principles, of an activity, within a single entity or across multiple entities, has in achieved achieving identified performance objectives~~ intended outputs or outcomes, commonly referred to as a performance audit.

(s) Performance Principle—the aspect of performance of relevance to the performance engagement which provides the context within which performance is evaluated. Performance principles most commonly include: economy, efficiency and effectiveness, but may extend to probity, ethical responsibility or environmental responsibility. Compliance is not a performance principle as that is the subject matter of a compliance engagement conducted under ASAE 3100.²

(t) Probity—the performance principle relating to ethical behaviour, reflecting integrity, uprightness and honesty, that upholds public values and ensures impartiality, accountability and transparency.

(u) Professional scepticism—an attitude that includes a questioning mind, being alert to the validity of evidence obtained and to evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained.

~~(h)~~(v) Reasonable assurance engagement—An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion in a performance engagement is expressed in a form that conveys the assurance practitioner's ~~opinion~~ conclusion on the outcome of the evaluation of the activity against identified ~~performance objectives~~ criteria.

~~(m)~~(w) Representation—Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence.

~~(n)~~(x) Responsible party—The party responsible for the performance of the activity, in a performance engagement.

~~(o)~~(y) Service performance information—reported information describing:

- (i) an entity's service performance objective(s);

² See ASAE 3100 *Compliance Engagements*.

- (ii) an entity's performance indicators relating to:
 - a. inputs;
 - b. outputs;
 - c. the outcomes that an entity is seeking to influence;
 - d. the link between inputs and outputs and/or outcomes (efficiency); and
 - e. the link between outputs and/or outcomes and service performance objectives (effectiveness).
- (iii) the assumptions that underlie the service performance information and the methodologies adopted in compiling the service performance information; and
- (iv) risks and the risk management strategies associated with achievement of the entity's service performance objectives.

~~(p) Short form report—Assurance report including only the matters required under paragraph 41 of this ASAE.~~

~~(z) Shortcoming in performance—A weakness or deficiency in the activity's performance, with respect to the selected performance principles, in achieving the intended outputs or outcomes, in whole or in part.~~

~~(g)(aa) Subject matter or underlying subject matter—The activity which is seeking to achieve the performance objectives intended outputs or outcomes.~~

Requirements

Applicability of ASAE 3000

18. The assurance practitioner shall not represent compliance with this ASAE unless the assurance practitioner has complied with the requirements of this ASAE and ~~relevant the~~ requirements of ASAE 3000 identified in this ASAE as relevant to performance engagements, adapted as necessary for direct engagements. ASAE 3000 contains requirements and application and other explanatory material specific to attestation assurance engagements but it may also be applied to direct ~~assurance~~ engagements, adapted and supplemented as necessary in the engagement circumstances.³

Inability to Comply with Mandatory Requirements

19. Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant requirement in this ASAE, the assurance practitioner shall:
- (a) if possible, undertake appropriate alternative evidence-gathering procedures; and
 - (b) document in the working papers:
 - (i) the circumstances surrounding the inability to comply;
 - (ii) the reasons for the inability to comply; and
 - (iii) justification of how alternative evidence-gathering procedures achieve the objectives of the mandatory requirement.

³ See ASAE 3000, paragraph 2.

~~16.20.~~ When the assurance practitioner is unable to undertake appropriate alternative evidence-gathering procedures, the assurance practitioner shall assess the implications for the assurance report.

Ethical Requirements

~~17.21.~~ As required by ASAE 3000, the assurance practitioner shall comply with relevant ethical requirements related to assurance engagements.⁴

Initiation or Acceptance

~~Preconditions for the Assurance Engagement~~

~~18.22.~~ The assurance practitioner shall initiate, where the assurance practitioner has the legislative mandate to do so, or accept a performance engagement only when:

- (a) The assurance practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (b) The assurance practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities;
- (c) The preconditions for an assurance engagement are present, as required by ASAE 3000;⁵ and
- (d) The basis on which the engagement is to be performed has been communicated and, if possible, agreed by ~~Confirming that there is a common understanding between the~~ assurance practitioner and either:
 - ~~(i) the engaging party, in written terms of engagement, including the assurance practitioner's reporting responsibilities; or~~
 - ~~(ii) the responsible party, in an engagement initiated by the assurance practitioner where there is no engaging party, in an engagement conducted by an Auditor General, by issuing a written communication advising the responsible party of the planned engagement; or,~~
 - ~~(i) —~~
~~the engaging party, in an engagement conducted by an assurance practitioner in the private sector,~~

~~of the terms of engagement, including the assurance practitioner's reporting~~ Preconditions for the Assurance Engagement

~~(ii) — responsibilities.~~

~~19.23.~~ When establishing whether the preconditions for an assurance engagement are present, the assurance practitioner shall determine, based on their preliminary knowledge of the performance engagement circumstances, whether:

- (a) The activities (underlying subject matter) which are to be evaluated are appropriate ~~in addressing the needs of the intended users;~~
- (b) The ~~performance objectives (criteria)~~ identified, selected or developed by the assurance practitioner ~~in the public sector~~ or agreed with the engaging party ~~in the~~

⁴ See ASAE 3000, paragraphs Aus 20.1 and ASA 102.

⁵ See ASAE 3000, paragraph 24.

~~private sector~~ are suitable, including that they exhibit the characteristics ~~set out in ASAE 3000~~ of suitable criteria (Ref: Para. 1(a)), and will be available to users;⁶

- (c) The assurance practitioner expects to be able to obtain the evidence needed to support the assurance practitioner's conclusion, which will be contained in a written report; and
- (d) The engagement has a rational purpose ~~and, in the case of a limited assurance engagement, the assurance practitioner expects to be able to obtain a meaningful level of assurance.~~

24. When identifying, selecting or developing suitable criteria or determining whether the criteria selected by the engaging party are suitable, the assurance practitioner shall consider whether the criteria are reasonable quantitative or qualitative measures of performance against which the activity's performance may be assessed. Suitable criteria for a performance engagement shall reflect the audit objective/s, the performance principles to be addressed and the intended outputs or outcomes of the activity and have the following characteristics:

- (a) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users.
- (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the performance engagement circumstances are not omitted.
- (c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the activity, including when used in similar circumstances by similarly qualified assurance practitioners.
- (d) Neutrality: neutral criteria contribute to conclusions that are free from bias.
- (e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Communicating with the Responsible Party Agreeing on the Terms of Engagement

20. ~~ASAE 3000⁷ requires the parties to the engagement to agree on the terms of the assurance engagement in writing, however in a performance engagement, if the assurance practitioner is a State, Territory or National Auditor General, they may not be engaged by another party, but initiate the engagement under their mandate. If the engagement is initiated by an engaging party, the assurance practitioner shall agree to~~ The terms of engagement ~~shall be agreed with the engaging party~~ in writing ~~if there is an engaging party and if there is no engaging party, the responsible party shall be advised of the terms of engagement prior to commencement of the engagement. The assurance practitioner shall communicate with the responsible party::~~
21. ~~the performance objectives and whether they were identified, developed or selected by the assurance practitioner or another party; and;~~
22. ~~that it acknowledges and understands its responsibility for providing the assurance practitioner with:~~
23. ~~access to all information, such as records, documentation and other matters of which the responsible party is aware are relevant to the activity's performance;~~
24. ~~additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; and~~

⁶ See ASAE 3000, paragraph 24(b)(ii).

⁷ See ASAE 3000, paragraph 27.

- ~~25. unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.~~
- ~~26. The terms of engagement shall identify:~~
- ~~27. the purpose of the engagement;~~
- ~~28. whether the engagement is a reasonable or limited assurance engagement;~~
- ~~29. the activity to be evaluated in the engagement;~~
- ~~30. the period to be covered by the engagement;~~
- ~~31. the performance objectives against which the activity will be evaluated;~~
- ~~32. the intended users of the assurance report;~~
- ~~33. the content of the assurance report, including whether it will be a short form or long form report, including additional information such as the performance objectives, procedures conducted, detailed findings and recommendations; and~~
- ~~25. any other matters required by law or regulation to be included in the terms of engagement.~~
- ~~(a)~~

Quality Control

- ~~34.~~~~26.~~ The assurance practitioner shall implement quality control procedures as required by ASAE 3000.⁸

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

- ~~35.~~~~27.~~ The assurance practitioner shall apply professional scepticism, exercise professional judgement and apply assurance skills and techniques in planning and performing an assurance engagement on controls, ~~as required by ASAE 3000.~~⁹

Planning and Performing the Engagement

Planning

- ~~36.~~ The assurance practitioner shall plan the engagement so that it will be performed in an effective manner as required by ASAE 3000.¹⁰
- ~~37.~~~~28.~~ In planning the engagement, if the scope of the engagement is based on overall performance objectives, then the assurance practitioner shall identify, select or develop specific performance objectives, to achieve the agreed overall performance objectives, against which the activity's performance can be tested.

Materiality

- ~~38.~~~~29.~~ The assurance practitioner shall consider materiality, ~~as required by ASAE 3000,~~¹¹ when determining the nature, timing and extent of procedures.
- ~~39.~~~~30.~~ The assurance practitioner shall identify ~~a performance measure~~ **any matter** relating to the activity as material if it is ~~fundamental~~ **significant** to the **performance of the activity in**

⁸ See ASAE 3000, paragraphs 31-36.

⁹ ~~See ASAE 3000, paragraphs 37-39.~~

¹⁰ See ASAE 3000, paragraph 40.

¹¹ ~~See ASAE 3000, paragraph 44.~~

achieving the ement of a performance objective(s) intended outputs or outcomes to be concluded upon. During the engagement the assurance practitioner shall reassess the materiality of the performance measures any matters- if matters come to their attention which there is any indication that the basis on which the materiality of those performance measures was determined has changed.

- 40.31. The assurance practitioner shall also consider materiality when evaluating the effect of accumulated deficiencies shortcomings, individually and in combination, in the performance of the activity to in achieving the performance identified objectivesoutputs or outcomes. Material deficiencies shortcomings are those which could detrimentally impact performance in the achievement achieving of one or more performance identified objectiveoutputs or outcomes- and be reasonably be expected to influence relevant decisions of the intended users.

Understanding the Activity and Other Engagement Circumstances

- 41.32. The assurance practitioner shall obtain an understanding of the activity, which is included in the scope of the engagement, and other engagement circumstances sufficient to enable the assurance practitioner to identify and assess the risks of shortcomings in the activity's performance in achieving the intended outputs or outcomes . In obtaining this understanding, the assurance practitioner shall obtain an understanding of internal control relevant to the measurement or evaluation of the activity's performance against the criteria. This includes evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to enquiry of the responsible party., and on the basis of that understanding, the assurance practitioner shall:
- (a) consider whether the identification, selection or development of performance objectives is appropriate, and/or select or develop further suitable performance objectives;
 - (b) identify and assess the risks that threaten achievement of each of the performance objectives to be concluded upon;
 - (c) as a basis for designing and performing assurance procedures to respond to the risks identified in paragraph 30(b); and
 - (d) obtain an understanding of the controls over achieving the performance objectives, evaluating the design of those controls and determining whether they have been implemented.

Obtaining Evidence

33. Based on the assurance practitioner's understanding obtained under paragraph 32 the assurance practitioner shall:
- (a) identify and assess the risks that threaten the activity's performance in achievement of each of the outputs or outcomes to be concluded upon;
 - (b) consider the impact of assessed risks on the appropriateness of the engagement objective and the suitability of the criteria and, if necessary, seek to amend the objective and/or criteria.
 - (c) design and perform assurance procedures to respond to assessed risks identified in paragraph 33(b)-33(a) to obtain limited or reasonable assurance sufficient appropriate evidence to support the assurance practitioner's conclusion.

Work Performed by an Assurance Practitioner's Expert

- 42.34. When the assurance practitioner plans to use the work of an assurance practitioner's expert, the assurance practitioner shall comply with the requirements in ASAE 3000.¹²

Work Performed by Another Assurance Practitioner, a Responsible Party's or Evaluator's Expert or an Internal Auditor

- 43.35. If the assurance practitioner plans to use information prepared ~~using the work of by~~ another ~~assurance practitioner, a responsible party's or evaluator's expert or an internal auditor~~ party, as evidence, the assurance practitioner shall comply with the requirements of ASAE 3000.¹³

Written Representations

36. The assurance practitioner shall ~~request~~ endeavour to obtain written representations, as appropriate for the engagement, from the responsible party, ~~or other relevant person(s) within the entity or parties, to provide written representations, in addition to those required by ASAE 3000,~~¹⁴
44. ~~that the responsible party:~~
45. ~~acknowledges its responsibility for conducting the activity, intended to achieve the performance objectives;~~
46. ~~has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph 21(b);~~
47. ~~has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:~~
48. ~~deficiencies in achievement of the performance objectives; or~~
49. ~~any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.~~

Subsequent Events

- 50.37. When relevant to the engagement, the assurance practitioner shall consider the effect on activity's performance of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the assurance practitioner after the date of the assurance report, that, had they been known to the assurance practitioner at that date, may have caused the assurance practitioner to amend the assurance report. Assurance procedures required to be conducted under ASAE 3000,¹⁵ The extent of consideration of subsequent events depends on the potential for such events to affect the performance of the activity and to affect the appropriateness of the assurance practitioner's conclusion. However, the assurance practitioner has no responsibility to perform any procedures regarding performance of the activity after the date of the assurance report, to identify all matters up to the date of the assurance report that may have caused the assurance practitioner to amend the assurance report on the activity's performance, shall include enquiry as to whether the responsible party is aware of any events subsequent to the period covered by the assurance engagement up to the date of the assurance practitioner's report that may have caused the assurance practitioner to amend the assurance report. If the assurance practitioner is aware of such an event, remedial action is either not taken or is not effective in mitigating the impact on the assurance

¹² See ASAE 3000, paragraph 52.

¹³ See ASAE 3000, paragraphs 53-54.

¹⁴ See ASAE 3000, paragraph 56.

¹⁵ See ASAE 3000, paragraph 61.

~~conclusion and information about that event is not disclosed by the responsible party, the assurance practitioner shall disclose the subsequent event in the assurance practitioner's report. If the event may impact the assurance conclusion, the assurance practitioner shall gather further evidence sufficient to determine whether the assurance conclusion remains appropriate or a modified assurance conclusion is required.~~

Forming the Assurance Conclusion

- ~~51.~~^{38.} The assurance practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained on the activity's performance in achievement of each ~~performance objective~~output or outcome -and, if necessary, attempt to obtain further evidence. If the assurance practitioner is unable to obtain necessary further evidence, the assurance practitioner shall consider the implications for the assurance practitioner's conclusion. ~~in accordance with ASAE 3000.~~¹⁶ The assurance practitioner shall ~~express the possible extent and impact of undetected deficiencies on the activity's achievement of the performance objectives due to an inability to obtain sufficient appropriate evidence and~~ state in their conclusion that there was not sufficient or appropriate evidence to conclude whether the activity performed, in terms of the performance principles, in achieving the performance objective(s) intended outputs or outcomes during the period.¹⁷
- ~~52.~~ When the assurance practitioner forms a conclusion in accordance with ASAE 3000,¹⁸ the assurance practitioner shall evaluate the materiality, individually and in aggregate whether due to fraud or error, of any deficiencies in the activity's achievement of the performance objectives.
- ~~53.~~^{39.} The assurance practitioner shall assess the impact of identified ~~deficiencies~~shortcomings in performance in achievement of the ~~performance objectives~~outputs or outcomes, which are material individually or in combination, on the assurance practitioner's conclusion on the performance of the activity. The assurance practitioner shall describe the extent and impact of those ~~deficiencies~~shortcomings and conclude whether the activity partially ~~achieved~~performed or did not ~~achieve~~perform, in terms of the selected performance principles, in achieving the intended outputs or outcomes the performance objective(s) in the assurance report.¹⁹

Preparing the Assurance Report

- ~~54.~~^{40.} The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's reasonable ~~or limited~~assurance conclusion about the activity's performance.
- ~~55.~~^{41.} The assurance practitioner's conclusion shall be clearly separated from other sections of the assurance report containing information or explanations that are not intended to affect the assurance practitioner's conclusion ~~nor to detract from that conclusion~~, including recommendations, ~~which are included in the assurance report.~~

Assurance Report Content

- ~~56.~~^{42.} The assurance practitioner shall include in the assurance report the following basic elements ~~required by ASAE 3000,~~²⁰ ~~which are~~ at a minimum, to the extent that it is not inconsistent with relevant legislation or regulation:
- (a) a title, indicating that it is an independent assurance report;
 - (b) an addressee;

¹⁶ See ASAE 3000, paragraph 66.

¹⁷ The equivalent conclusion in ASAE 3000 is a qualified conclusion or disclaimer.

¹⁸ See ASAE 3000, paragraphs 64-65.

¹⁹ The equivalent conclusion in ASAE 3000 is a qualified or adverse conclusion.

²⁰ See ASAE 3000, paragraph 69.

- ~~(c)~~ an identification of whether reasonable assurance (audit) or limited assurance (review) has been obtained by the assurance practitioner;
- ~~(d)~~(c) identification of the scope activity which is the subject matter of the engagement including:
 - ~~(i)~~ the distinguishing features of the activity which was the subject matter of to the performance engagement;
 - ~~(i)~~(ii) the performance principles (economy, efficiency, effectiveness or other principles) applied in the evaluation of the activity's performance;
 - ~~(ii)~~(iii) the period covered by the performance engagement;
 - ~~(iii)~~(iv) identification of the overall and/or objectives, specific performance sub-objectives used as and/or criteria for evaluating the performance of the activity and the party specifying those performance objectives or criteria, including whether those objectives were developed by if it was not the Auditor General or the assurance practitioner;
 - ~~(iv)~~(v) if appropriate, a description of any significant inherent limitations associated with the evaluation of the activity's performance against the performance objectives criteria;
- ~~(e)~~ a statement that the responsible party is responsible for
- ~~(f)~~ the activity covered by the assurance practitioner's report;
- ~~(g)~~(d) designing and implementing controls to mitigate the risks which threaten achievement of the performance objectives;
- ~~(h)~~(e) a statement that the assurance practitioner's responsibility is to express a conclusion on the activity's performance in achieving the performance objectives intended outputs or outcomes, which addresses the audit objective;
- ~~(i)~~(f) a statement that the engagement was performed in accordance with ASAE 3500 *Performance Engagements*;
- ~~(g)~~ a statement that:
 - ~~(i)~~ the office or Audit Office or firm of which the assurance practitioner is a member applies ASQC 1; and
 - ~~(i)~~(ii) a statement that the assurance practitioner complies with the independence and other relevant ethical requirements related to assurance engagements;
- ~~(j)~~ a summary of the work performed by the assurance practitioner to obtain reasonable or limited assurance and a statement of the assurance practitioner's belief that the evidence obtained is sufficient and appropriate to provide a basis for the assurance practitioner's conclusion. In the case of a limited assurance engagement, in which an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance practitioner's conclusion, the summary of the work performed shall state that:
- ~~(k)~~ the procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
- ~~(l)~~(h) consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed;

- (m)(i) a statement of the limitations of a performance engagement and, if applicable, of the risk of projecting to other periods the outcome of any evaluation of the activity's performance;
- (n)(j) ~~either, the assurance practitioner's opinion for a reasonable assurance engagement or the assurance practitioner's conclusion for a limited assurance engagement about whether, in all material respects, the performance, in terms of the selected performance principles, of the activity in achieving the performance objectives intended outputs or outcomes during the period, which addresses the audit objective;~~
- (o)(k) when the assurance practitioner has been unable to obtain sufficient appropriate evidence or has identified ~~deficiencies~~ shortcomings in the activity's performance in achievement of the intended outputs and outcomes ~~performance objectives~~, the assurance report shall contain:
- (i) a description of the extent and impact of those matter(s); and
 - (ii) the assurance practitioner's conclusion that either the activity did not perform in certain respects, did not perform in all respects ~~partially achieved, did not achieve~~ or there was not sufficient or appropriate evidence to conclude whether the activity performed in achieving the identified outputs or outcomes ~~achieved, the performance objective(s)~~ during the period;
- (p)(l) ~~(i)~~ identification of the ~~Auditor General or the~~ assurance practitioner, the audit office or location in the jurisdiction where the assurance practitioner practices and the date of the assurance report.

57. ~~If the assurance practitioner is required to provide a long form assurance report to meet the information needs of users, as agreed in the terms of engagement, or as required by law or regulation, the assurance practitioner's report shall include a separate section, or an attachment, containing any other information and explanations that are not intended to affect the assurance practitioner's conclusion and are clearly identified as such.~~

58.43. If the assurance practitioner is required to conclude on other subject matters under different AUASB standards in conjunction with an engagement to report under this ASAE, the assurance report shall include a separate section for each subject matter in the assurance report, clearly differentiated by appropriate section headings.

Emphasis of Matter and Other Matter Paragraphs

59. ~~If the assurance practitioner considers it necessary to communicate a matter that, in the assurance practitioner's judgement, is relevant to intended users' understanding of the engagement, the assurance practitioner's responsibilities or the assurance report, the assurance practitioner shall include a description of that matter in the assurance report and clearly indicate that the assurance practitioner's conclusion is not affected by the matter.~~

Modified Conclusions Shortcomings in the Activity's Performance

60.44. If the assurance practitioner concludes that the activity did not perform in certain respects, did not perform in all respects ~~has not achieved the performance objectives during the period or~~ the assurance practitioner is unable to obtain sufficient appropriate evidence as to whether the activity performed, in terms of the selected performance principles, in achieving the intended outputs or outcomes during the period, the assurance practitioner shall express state ~~provide~~ that in their conclusion and ~~the assurance practitioner's report shall include~~ provide a clear description of the extent of the shortcomings in performance and the actual or potential impacts of the identified ~~deficiencies~~ shortcomings ~~or possible impact of undetected deficiencies in the activity's performance on the activity's achievement of the performance objective(s).~~

Scope Limitation

- ~~61.~~45. A limitation on the scope of the assurance practitioner's work may be imposed by the terms of the engagement, if the engagement was initiated by an engaging party, or by the circumstances of the particular engagement. When the limitation is imposed by the terms of the engagement, and it is likely to prevent the assurance practitioner from ~~believes that an inability to form an opinion or reaching~~ a conclusion ~~would need to be expressed~~, the engagement shall not be accepted, unless required to do so by law or regulation.
- ~~62.~~46. When a scope limitation is imposed by the circumstances of the particular engagement, the assurance practitioner shall attempt to perform alternative procedures to overcome the limitation. When a scope limitation exists and remains unresolved, the wording of the assurance practitioner's conclusion shall describe the limitations on their engagement and indicate the effects of any deficiency in the activity's achievement of the performance objectives which might have been identified had the limitation not existed the matters on which they are unable to conclude.

Other Communication Responsibilities

47. If during the course of the engagement the assurance practitioner identifies any significant shortcomings in the activity's performance, the assurance practitioner shall report those shortcomings to the responsible party on a timely basis to allow the responsible party sufficient time to respond to those comments.
- ~~63.~~48. The assurance practitioner shall consider whether, pursuant to the terms of the engagement, if applicable, ~~and~~ other engagement circumstances or legislative requirements, any matter has come to the attention of the assurance practitioner that is to be communicated with Parliament, the responsible party, the engaging party (if applicable) or others, as required by ASAE 3000.²¹ ~~If during the course of the engagement the assurance practitioner identifies any significant deficiencies in the activity's performance, the assurance practitioner shall report those deficiencies to the responsible party on a timely basis.~~
- ~~64.~~49. The assurance practitioner shall determine whether there is a responsibility or legislative requirement to report the occurrence or suspicion of fraud or other misconduct to a party outside the entity, including Parliament, a regulator or government agency. If the assurance practitioner has identified a fraud or has obtained information that indicates that a fraud may exist, the assurance practitioner shall communicate these matters on a timely basis to the responsible party, unless prevented from doing so by law or regulation, in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. ~~The assurance practitioner shall determine whether there is a responsibility or legislative requirement to report the occurrence or suspicion to a party outside the entity, including Parliament or the Government.~~
- ~~65.~~ ~~The assurance practitioner shall design engagement procedures to gather sufficient appropriate evidence to form a conclusion in accordance with the terms of the engagement, if applicable. In the absence of a specific requirement in the terms of engagement the assurance practitioner does not have a responsibility to design procedures to identify matters outside the scope of the engagement that may be appropriate to report to the responsible party.~~

Documentation

- ~~66.~~50. The assurance practitioner shall prepare documentation in accordance with ASAE 3000.²² In documenting the nature, timing and extent of procedures performed as required by ASAE 3000, the assurance practitioner shall record:

²¹ See ASAE 3000, paragraph 78.

²² See ASAE 3000, paragraphs 79-83.

- (a) the identifying characteristics of the activity's performance being tested;
- (b) who performed the work and the date such work was completed; and
- (c) who reviewed the work performed and the date and extent of such review.

* * *

Draft

Application and Other Explanatory Material

Application

- A1. This ASAE addresses direct engagements and so does not address assurance engagements on service performance information, which are attestation engagements on reports an activity's performance ~~as measured by key performance indicators (KPIs). Meeting KPI targets may be indicative of the achievement of performance objectives, but are not usually sufficient on their own as a basis for concluding on the achievement of performance objectives. Additional factors will usually need to be considered and professional judgement exercised in order to draw such conclusions. Consequently, an assurance report on service performance information provides a conclusion on measurement and presentation of the KPI itself.~~

Introduction

- ~~A2. If the assurance practitioner initiates or accepts a limited assurance engagement on the performance of an activity, in adapting this ASAE for that purpose, the assurance practitioner ensures:~~
- ~~(a) the users understand the lower level of assurance which the assurance practitioner will obtain as a basis for their conclusion;~~
 - ~~(b) the needs of users will still be met by a limited assurance conclusion;~~
 - ~~(a)(c) the assurance conclusion clearly communicates that the procedures performed vary in nature and timing from and are less in extent than for a reasonable assurance engagement and so the level of assurance obtained is substantially lower than in a reasonable assurance engagement.~~

Objectives

- ~~A3. The objectives of a performance engagement may be expressed in various ways and are often presented as statement of purpose or "audit questions" which are ~~intended to be answered in the assurance report.~~ considered in the context of the responsible party's responsibilities and the performance principles to be addressed. Performance principles addressed are typically, but are not limited to, economy, efficiency and effectiveness. In these circumstances, the assurance practitioner exercises professional judgement in determining the use of the most appropriate terminology throughout the performance engagement and especially in the assurance report.~~
- ~~A4. Performance engagements may address a broad range of activities including:~~
- ~~(a) systems for planning, budgeting, authorisation, control and evaluation of resource allocation;~~
 - ~~(b) systems established and maintained to ensure compliance with an entity's mandate as expressed in policies or legislation;~~
 - ~~(c) resource management;~~
 - ~~(d) measures aimed at deriving economies of scale, such as centralised resource acquisition, sharing common resources across a number of business units;~~
 - ~~(e) measures aimed at improving economy, efficiency or effectiveness;~~
 - ~~(f) the assignment of responsibilities, and accountability;~~
 - ~~(g) measures to monitor outcomes against predetermined objectives and performance benchmarks;~~

(h) program or service delivery; and

(i) implementation of government policy.

A5. In the public sector, the conduct of performance engagements by auditors-general is legislated in the respective jurisdictions. While the legislative requirements may have either a narrow or broad scope, performance engagements may include examination of:

(a) economy, efficiency or effectiveness:

(i) in terms of management systems or an entity's management in order to contribute to improvements;

(ii) of the operations of an entity or an activity of an entity;

(iii) in the implementation of government policies or programs and the application of government grants;

(iv) in terms of financial prudence in the application of public resources; and

(v) of administrative arrangements.

(b) intended and unintended impacts of the implementation of government policies or programs and the extent to which community needs and stated objectives of an activity or entity have been met; or

(c) probity processes and identification of weaknesses.

A2. —

Definitions

A3. —

Applicability of ASAE 3000

A4. —

Ethical Requirements

A6. Relevant ethical requirements include the following fundamental principles with which the assurance practitioner is required to comply:

(a) integrity;

(b) objectivity, including independence;

(c) professional competence and due care;

(d) confidentiality; and

~~(a)~~(e) professional behaviour.

Initiation or Acceptance

Preconditions for the Assurance Engagement

A7. In the public sector, if an engagement is initiated by the assurance practitioner, some of the preconditions for the assurance engagement may be assumed to be present if they are set out in

legislation, such as the roles and responsibilities of the responsible party and the right of access to information by the assurance practitioner.

A8. When initiating or accepting a performance engagement, in order to satisfy themselves that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, the assurance practitioner may need to either assemble a multi-disciplinary team or be a specialist in the relevant discipline.

~~A5.~~A9. When multi-disciplinary teams are used in a performance engagement, adequate direction, supervision and review are particularly important so that the team members' different perspectives, experience and specialties are appropriately used. It is important that all team members understand the objectives of the particular performance engagement and the terms of reference of work assigned to them. Adequate direction, supervision and review are important so that the work of all team members is executed properly and is in compliance with this ASAE and meets the quality control requirements of ASAE 3000.

Assessing the appropriateness of the subject matter

A10. When assessing the appropriateness of the activity as the subject matter of the engagement, the assurance practitioner considers whether:

- the activity is identifiable, and its performance capable of consistent evaluation against identified criteria; and
- the information about it is capable of being subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

A11. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the activity is not an appropriate subject matter, the assurance practitioner assesses whether to:

- Change the scope of the performance engagement or, if terms of the engagement have been agreed with the engaging party, seek to amend those terms; or
- withdraw from or discontinue the performance engagement.

A12. In a performance engagement initiated by the assurance practitioner, the identification of the subject matter and development of criteria will be an iterative process which evolves as the audit objective/s are clarified and refined based on the information gathered during the engagement. As the assurance practitioner gains a better understanding of the engagement circumstances they may revise their assessment of the matters which address the needs of users.

A13. In the event that the assurance practitioner is unable to change the scope or terms of, or withdraw from or discontinue, the performance engagement, under paragraph A11 of this ASAE, the assurance practitioner needs to consider the implications for the assurance report.

Assessing the Suitability of the Criteria

A14. Criteria are the specific measures used to assess the performance of the activity. They may be based on relevant legislation, guidelines, internal policies and procedures, industry standards or best practice. Criteria which address each objective or sub-objective are developed or identified in planning the engagement. In assessing the suitability of the criteria, the assurance practitioner considers whether the criteria are derived from sources such as:

- (a) regulatory bodies, legislation or policy statements;
- (b) industry standards, benchmarks, good practice guides developed by professional bodies, associations or other recognised authorities;

- (c) statistics, measures or practices developed by the responsible party or by similar entities; or
 - (d) developed by the assurance practitioner themselves, in which case the assurance practitioner ordinarily documents why the selected criteria are suitable.
- A15. The assurance practitioner assesses the suitability of the criteria to evaluate or measure the performance, with respect to each performance principle to be addressed within the scope of the engagement, of the activity in achieving the identified outputs or outcomes.
- A16. Criteria may range from general to specific. General criteria are broad statements of acceptable and reasonable performance. Specific criteria are derived from general criteria and are more closely related to an entity's governing legislation or mandate, objectives, programs, systems and controls.
- A17. If after initiating or accepting the performance engagement, the assurance practitioner concludes that the identified criteria are not suitable, the assurance practitioner may either:
- identify or develop suitable criteria;
 - seek to change the terms of the performance engagement, if necessary, such as when the terms have been agreed with an engaging party; or
 - withdraw from or discontinue the performance engagement.
- A18. In the event that the assurance practitioner is unable to change the terms of, or withdraw from or discontinue, the performance engagement, the assurance practitioner considers the implications for the assurance report.
- A19. Criteria are either established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. When established criteria exist for an activity, specific users may agree to other criteria for their specific purposes. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in which case the assurance report may state, if it is relevant to the intended users:
- that the criteria are not embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process; and
 - that the assurance report is only for the use of the intended users and for their purposes.

Quality Control

Agreeing on the Terms of Engagement

- A20. The terms of engagement ordinarily identify:
- (a) the objectives of the engagement;
 - (b) that the engagement is a reasonable assurance engagement;
 - (c) the activity to be evaluated in the engagement;
 - (d) the period to be covered by the engagement;
 - (e) the performance principles to be addressed and related criteria, in so far as the criteria have been identified, against which the activity will be evaluated;
 - (f) the intended users of the assurance report;

- (g) the expected content of the assurance report ; and
- (h) any other matters required by law or regulation to be included in the terms of engagement.

A21. The terms of engagement may also seek the responsible party's agreement that they acknowledge and understand their responsibility to provide the assurance practitioner with:

- (a) access to information, such as records, documentation and other matters of which the responsible party is aware are relevant to the activity's performance;
- (b) additional information that the assurance practitioner may request from the responsible party for the purposes of the assurance engagement; or
- (c) unrestricted access to persons engaged in the activity from whom the assurance practitioner determines it necessary to obtain evidence.

A22. If there is no engaging party, such as for engagements initiated by an auditor-general, the existence of a legislative mandate may obviate the need to agree on the terms of the performance engagement. Even in those situations it may be useful for the assurance practitioner to communicate the terms of engagement to the responsible party, including referral of any legislative requirements imposed on the responsible party to provide access to information or people relevant to the activity.

(a) —

Professional Scepticism, Professional Judgement and Assurance Skills and Techniques

A6. —

Planning and Performing the Engagement

A23. Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the performance engagement, and a performance engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be undertaken and the reasons for selecting them. Ordinarily, adequate planning:

- Helps to devote appropriate attention to important areas of the performance engagement, identify potential problems on a timely basis and properly organise and manage the performance engagement in order for it to be conducted in an effective and efficient manner.
- Assists the assurance practitioner to properly assign work to performance engagement team members, and facilitates their direction and supervision and the review of their work.
- Assists, where applicable, the coordination of work done by other assurance practitioners and experts.

A24. The nature and extent of planning activities will vary with the performance engagement circumstances, for example the size and complexity of the activity and the assurance practitioner's previous experience with it. Examples of the main matters to be considered include:

- The terms of the performance engagement.
- The characteristics of the activity and the identified criteria.
- The performance engagement process and possible sources of evidence.

- The assurance practitioner's understanding of the activity and other performance engagement circumstances.
- Identification of intended users and their needs, and consideration of materiality and the assessment of risk.
- Personnel and expertise requirements, including the nature and extent of involvement by experts.

A25. Planning is not a discrete phase, but rather a continual and iterative process throughout the performance engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the assurance practitioner may need to revise the overall strategy and performance engagement plan, and thereby the resulting planned nature, timing and extent of further evidence-gathering procedures.

A26. In planning the engagement, if the scope of the engagement is based on overall objectives, then the assurance practitioner ordinarily identifies sub-objectives from which they can identify, select or develop the criteria, against which the activity's performance can be evaluated.

Materiality

A27. In considering materiality the assurance practitioner needs to understand and assess what shortcomings in meeting the identified criteria might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the activity and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular performance engagement are matters for the assurance practitioner's judgement.

A28. Quantitative and qualitative factors which the assurance practitioner may consider when assessing materiality may include:

- The magnitude of the impacts of the activity's performance.
- The relative importance of the matter to achieving the intended outputs or outcomes.
- The financial impact of the matter on the activity as a whole.
- The nature of relevant transactions, whether they involve high volumes, large dollar values and complex transactions relative to the activity as a whole.
- The extent of interest shown in particular aspects of the activity by, for example, the legislature or other governing body, regulatory authorities or the public.
- The potential economic, social, political and environmental impact of the poor performance of the matter within the activity.

Understanding the Activity and Other Engagement Circumstances

A29. Obtaining an understanding of the activity and other performance engagement circumstances is an essential part of planning and conducting a performance engagement. That understanding ordinarily provides the assurance practitioner with a frame of reference for exercising professional judgement throughout the performance engagement, for example, when:

- Considering the characteristics of the activity.
- Assessing the suitability of criteria.

- Assessing systems established and maintained for ensuring compliance with an entity's mandate or internal controls as expressed in policies and legislation.
- Identifying where special consideration may be necessary, for example factors indicative of wastage or fraud, and the need for specialised skills or the work of an expert.
- Establishing and evaluating the continued appropriateness of quantitative levels of performance (where appropriate), and considering qualitative materiality factors or benchmarks.
- Developing expectations for use when undertaking analytical procedures.
- Designing and undertaking further evidence-gathering procedures to reduce risk to an appropriate level.
- Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

Obtaining Evidence

- A30. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The assurance practitioner ordinarily 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 assurance practitioner uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the conclusions in the assurance report.
- A31. Performance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic assurance engagement process. For further guidance on the nature, timing and extent of evidence-gathering procedures for performance engagements, refer to ASAE 3000.
- ~~A7.~~A32. In a performance engagement if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether sufficient appropriate evidence has been obtained, the assurance practitioner ordinarily pursues the matter by undertaking other evidence-gathering procedures sufficient to enable the assurance practitioner to report.

Written Representations

- A33. Ordinarily, if the engagement is initiated by the assurance practitioner, the assurance practitioner may not be in a position to obtain representations from the responsible party, particularly as the responsible party may not be a party to the engagement.
- A34. Representations by the responsible party cannot replace other evidence the assurance practitioner 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 evaluation or measurement of the activity, when such evidence would ordinarily be available, constitutes a limitation on the scope of the performance engagement, even if a representation from the responsible party has been received on the activity.
- A35. Written representations may include that the responsible party:
- (a) acknowledges its responsibility for conducting the activity, intended to achieve the identified outputs or outcomes;

- (b) has provided the assurance practitioner with all relevant information and access agreed to, as set out in paragraph A22;
- (c) has disclosed to the assurance practitioner any of the following of which it is aware may be relevant to the engagement:
- (d) shortcomings in achievement of intended outputs or outcomes; or
- (e) any events subsequent to the period covered by the assurance practitioner's report up to the date of the assurance report that could have a significant effect on the assurance practitioner's report.

Subsequent Events

- ~~A8.~~ A36. The extent of consideration of subsequent events, that come to the attention of the assurance practitioner, depends on the potential for such events to affect the activity and to affect the appropriateness of the assurance practitioner's conclusions. Consideration of subsequent events in some performance engagements may not be relevant because of the nature of the activity.

Forming the Assurance Conclusion

- ~~A9.~~ When the assurance practitioner's conclusion expresses the possible extent and impact of undetected deficiencies in the activity's performance due to an inability to obtain sufficient appropriate evidence in the course of the performance engagement, then their conclusion is equivalent to a qualified conclusion or disclaimer under ASAE 3000.
- ~~A10.~~ A37. When the assurance practitioner's conclusion expresses the extent and impact of deficiencies in the activity's performance identified in the course of the performance engagement, then their conclusion is equivalent to a qualified or adverse conclusion under ASAE 3000.

Preparing the Assurance Report

- A38. There may be circumstances where an auditor-general, having conducted a performance engagement, decides not to report to Parliament or to publish an assurance report. The auditor-general usually has the discretion under their mandate to choose whether and to whom they will report on performance engagements. Assurance reports which are tabled in Parliament become available to the public. In certain circumstances it may be necessary for the confidentiality of the assurance report to be maintained, in which case the report may be provided to the Public Accounts Committee or other appropriate user, in confidence. The auditor-general considers the public interest in determining whether the performance assurance report will be made publically available. ~~Some matters may need to remain confidential in order to protect national security.~~
- A39. This ASAE does not require a standardised format for reporting on all performance engagements even though paragraph 42 identifies the basic elements of the assurance report. For instance, under:
- Paragraph 42(a), the title of the assurance report may differ depending on whether the assurance practitioner is an auditor-general or a practitioner in the private sector. However, in both instances the title would convey that it is an independent report.
 - Paragraph 42(j), the assurance practitioner's conclusions may be drafted as appropriate to recognise local legislation or custom and may be worded in terms of a response to the statement of purpose or the audit question.
- A40. Therefore, assurance reports are tailored to the specific performance engagement circumstances with the assurance practitioner using professional judgement in deciding how

best to meet the reporting requirements detailed in paragraph 42 in conveying the conclusion(s). The assurance practitioner includes the matters in paragraph 42 as a minimum and reports in the manner and to the extent necessary to facilitate effective communication to the intended users. Whilst the assurance conclusion makes a clear statement communicating the assurance practitioner's conclusion, the assurance report may include other matters which the assurance practitioner considers meet the information needs of the intended users, such as: the terms of the performance engagement, the objectives and sub-objectives of the engagement, the criteria used, findings relating to particular aspects of the performance engagement and, in some cases, recommendations. Ordinarily, any findings and recommendations are clearly separated from the assurance practitioner's conclusion on the performance of the activity.

Reporting Findings, Recommendations and Responsible Party Comments

A41. The assurance practitioner may expand the assurance report to include other information and explanations, including:

- Relevant background information and historical context.
- The assurance approach.
- Underlying facts and criteria applied.
- Disclosure of materiality levels.
- Findings relating to particular aspects of the performance engagement.
- Analysis of the causes of shortcomings in the activity's performance.
- Recommendations to address shortcomings identified.
- Comments received in response to the report from the responsible party/ies.

A42. The decision to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

Shortcomings in the Activity's Performance

A43. If material shortcomings are identified, the assurance practitioner's conclusion clearly reflects that either:

- (a) the activity did not perform, in terms of identified performance principles, with respect to certain outputs or outcomes, when the shortcomings identified in the activity's performance are restricted to certain outputs or outcomes of the activity or certain objectives or sub-objectives of the engagement;
- (b) the activity did not perform, in terms of the identified performance principles, when the shortcomings identified in the activity's performance impact the outputs and outcomes of the activity or the objective of the engagement, as a whole ;
- (c) the assurance practitioner was unable to conclude on the activity's performance with respect to certain outputs or outcomes, when the assurance practitioner was unable to obtain sufficient appropriate evidence with respect only to those outputs or outcomes; or
- (d) the assurance practitioner was unable to conclude on the activity's performance when the assurance practitioner was unable to obtain sufficient appropriate evidence regarding the activity's performance as a whole.

A44. The assurance practitioner's conclusions described in paragraph A43, are equivalent modified conclusions under ASAE 3000 and the equivalent terms in ASAE 3000²³ are:

- A qualified conclusion – circumstances described in sub-paragraphs A43(a) and A43(c).
- An adverse conclusion – circumstance described in sub-paragraph A43(b).
- A disclaimer of conclusion – circumstance described in sub-paragraph A43(d).

Other Communication Responsibilities

Documentation

A45. Documentation includes a record of the assurance practitioner's reasoning on all significant matters that require the exercise of judgement, and related conclusions. The existence of difficult questions of principle or judgement, calls for the documentation to include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.

~~A44.~~ A46. In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily considers what is necessary to provide an understanding of the work undertaken, the results of that work, the evidence obtained and the basis of the principal decisions taken to another experienced assurance practitioner, who has no previous connection with the performance engagement. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the performance engagement.

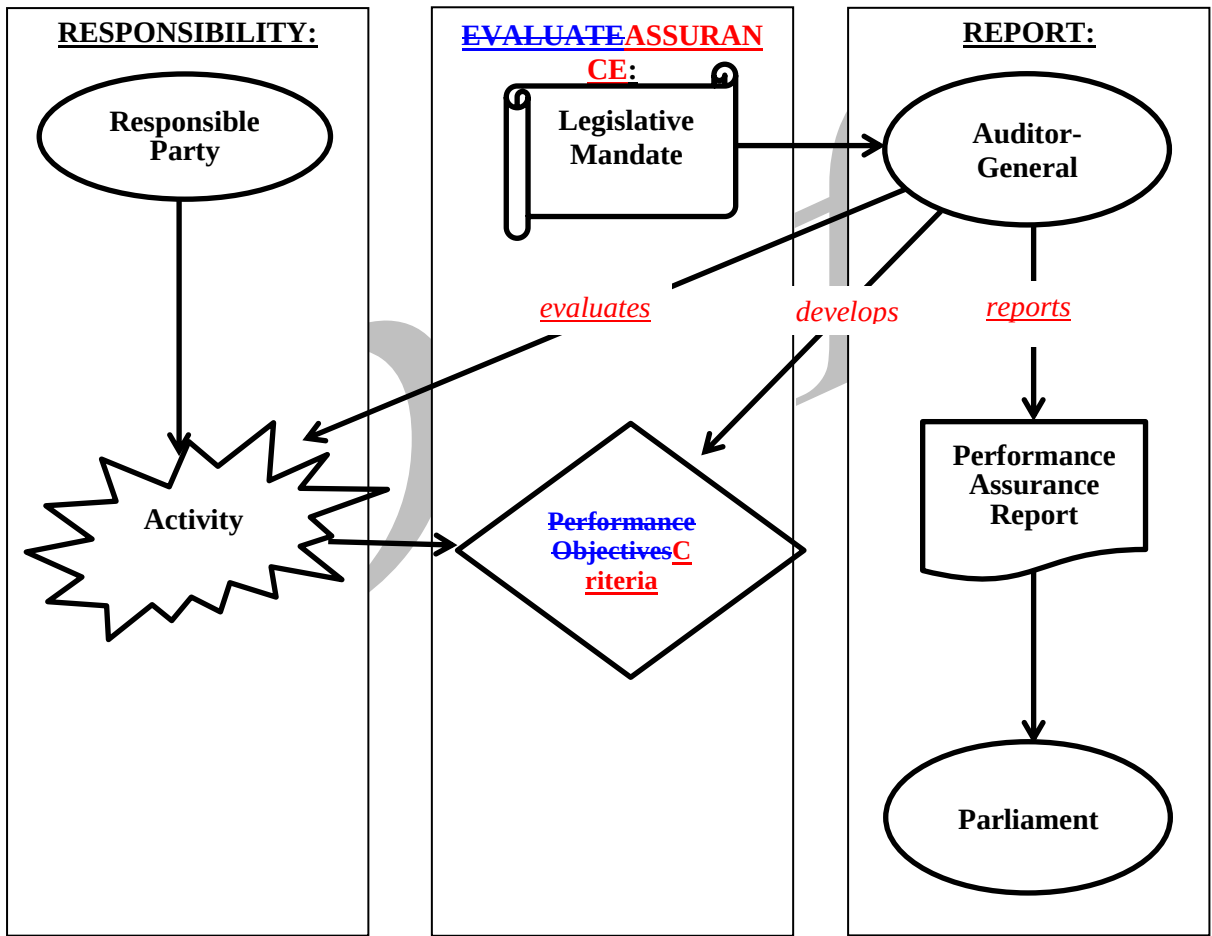
²³ See ASAE 3000, paragraphs 74-75.

Appendix 1

(Ref: Para.)

ROLES AND RESPONSIBILITIES – ~~PUBLIC SECTOR~~ PERFORMANCE ENGAGEMENTS INITIATED BY AN AUDITOR-GENERAL

The diagram below illustrates the relationships in a performance engagement conducted by an auditor-general.

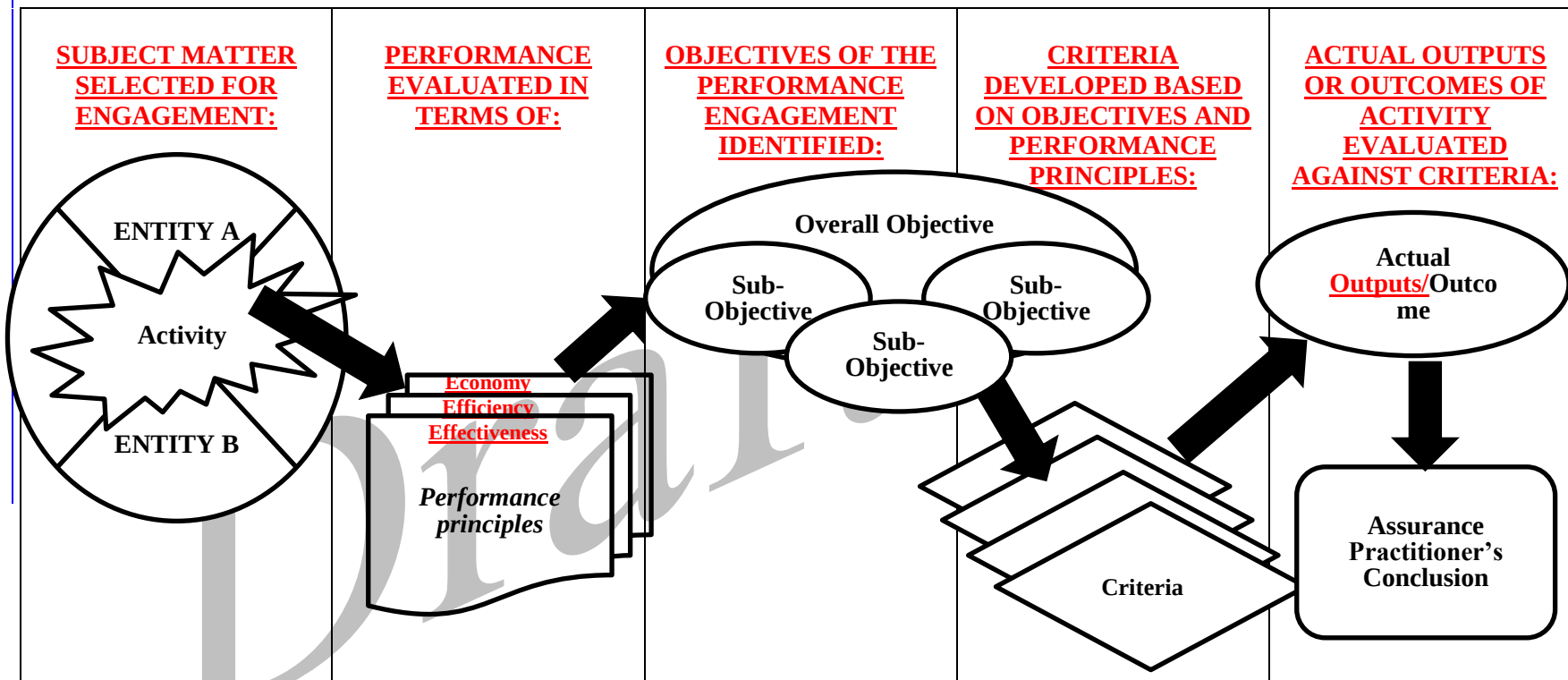


Under their legislative mandate, the auditor-general selects an activity, conducted by the responsible party or parties, to be the subject matter of a performance engagement. The auditor-general identifies performance principles (economy, efficiency, effectiveness or other principles) to be applied and develops suitable criteria. An auditor-general evaluates the activity, in terms of the performance principles, against those the performance objectives criteria and to obtains assurance on which to base their conclusion. performance assurance report. The performance assurance report is ordinarily tabled in Parliament.

Appendix 2

(Ref: Para.)

THE NATURE OF A PERFORMANCE ENGAGEMENT



STANDARDS APPLICABLE TO ENGAGEMENTS ON AN ACTIVITY'S PERFORMANCE

SUBJECT MATTER	APPLICABLE AUASB STANDARDS			
	ASAE 3000 Assurance Engagements (not Historical Financial Information)	ASAE 3500 Performance Engagements	ASAE 3100 Compliance Engagements	ASAE 3150 Assurance Engagements on Controls
1. Performance of an activity in achieving <u>performance objectives</u> <u>outputs or outcomes, where there is no attestation (direct engagement)</u>	✓ ²⁴	✓		
2. Performance of an activity in complying with legislative and regulatory requirements	✓		✓	
3. Design and operating effectiveness of controls over an activity's <u>performance in achieving of performance identified objectives</u> <u>outputs or outcomes.</u>	✓			✓
4. <u>Service performance information reported by an entity</u>	✓			

²⁴ ASAE 3000 applies to attestation engagements, so as these are direct engagements, the assurance practitioner only complies with relevant requirements of ASAE 3000, adapted and supplemented as necessary in the engagement circumstances.

Appendix 4

(Ref: Para.)

EXAMPLE OF THE ELEMENTS OF A PERFORMANCE ENGAGEMENT

<u>Engagement Objective/ Audit Question/ Scope</u>	<u>Performance Principle/s</u>	<u>Subject Matter/ Activity</u>	<u>Agency/ Entity</u>	<u>Criteria</u>	<u>Assurance Conclusion</u>
How effectively pests are managed in the jurisdiction?	Effectiveness	Management of existing pests.	Public sector agencies and landholders	Framework for management of pests. Co-operation & collaboration between agencies and landholders co-ordinated. Pest control activities based on identified priorities including: - Prevention of new pests. - Highest environmental impact. - Greatest chance of controlling pest.	Conclude that pests were managed effectively. Or conclude that pests were not managed effectively due to: - Lack of a jurisdiction-wide plan to implement framework and allocate roles & responsibilities. - Little monitoring or enforcement of landholders responsibilities regarding pest control. Or conclude that there is insufficient evidence as to whether or the extent to which pests are managed effectively due to: - Lack of adequate and reliable data collection and sharing on pest numbers, types, geographic spread and pest control measures undertaken to inform resource allocation and priorities. - Lack of adequate data on threats of new pests from other jurisdictions.

Appendix 3

(Ref: Para.)

EXAMPLE ENGAGEMENT LETTER

Appendix 4

(Ref: Para.)

EXAMPLE REPRESENTATION LETTER

Appendix 5

(Ref: Para.)

EXAMPLE ASSURANCE REPORTS ON PERFORMANCE

Appendix 6

(Ref: Para.)

EXAMPLE MODIFIED REASONABLE ASSURANCE REPORTS ON PERFORMANCE

Tables of Differences — ASAE 3500 and Existing ASAE 3500***Summary of Main Differences — ASAE 3500 and Existing ASAE 3500***

The table below details the main differences (excluding editorial amendments) between this proposed Standard on Assurance Engagements and existing ASAE 3500.

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract	Commentary

Draft



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **8(c)**

Meeting Date: 15 September 2015

Subject: Revision of ASAE 3500 *Performance Engagements*

Date Prepared: 4 September 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To consider a draft revised ASAE 3500 *Performance Engagements* and provide direction on approach.

Background

1. ASAE 3500 was issued in 2008 and a post-implementation survey was conducted in 2012. The results of that survey identified a number of matters to be addressed in any future revisions to ASAE 3500.
2. The AUASB approved a project plan to revise ASAE 3500 at the AUASB meeting 24 February 2015 and an updated timetable at the 9 June 2015 meeting. Following approval of the project, the AUASB Technical Group met with the Australasian Council of Auditors-General (ACAG) Heads of Performance Audit at their annual meeting in late March, in order to bring the project to the attention of the auditors-general and to obtain initial feedback on the scope of the revised standard and issues to be addressed in the redrafting.
3. A Project Advisory Group was formed in April, with representatives from each of the audit offices which conduct performance engagements and an academic. PAG discussions were held in mid-May, to discuss the proposed approach to addressing issues identified and to recommend the scope of the revised standard; mid-June, to discuss an initial draft standard; late July and late August to discuss further drafts.
4. The agreed scope of the revised ASAE 3500 is performance engagements:
 - (a) Subject matter: an activity, which may cut across multiple entities;
 - (b) Criteria: determined by applying the selected performance principles (economy, efficiency, effectiveness etc) and the identified objectives of the activity;
 - (c) direct engagements only, which necessarily excludes assurance over service performance information reported;
 - (d) reasonable assurance only, but may be adapted for limited assurance engagements;

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- (e) allowing for engagements initiated by an auditor-general or an engaging party;
- (f) flexible scope and reporting to accommodate different mandated reporting requirements;
- (g) allowing for broad performance principles, not limited to economy, efficiency and effectiveness, to allow flexibility to address other aspects of performance;
- (h) anchors to ASAE 3000 to the extent that the requirements of ASAE 3000 are relevant to direct engagements; and
- (i) wording of the standard to reflect terminology used by performance auditors and minimise wording which is unique to AUASB standards which may not be well understood by performance auditors, including the terms used for modifications to the assurance conclusion for which clearer terms can be used.

Matters to Consider

Part A – General

1. At the 28 July AUASB meeting, the AUASB agreed to restrict the standard to direct engagements only, which has been addressed in the latest draft ASAE 3500.
2. The PAG met on 24 August and discussed terminology used and the approach to performance engagements which have been addressed largely in the current draft ASAE 3500. Where there were a range of views within the PAG or the PAG suggestions may be inconsistent with the approach in the AUASB Standards, these matters have been identified below for consideration by the AUASB.

Consistent approach to ASAE 3000 and other AUASB Standards

3. The PAG suggested that a number of matters, which are included in ASAE 3000, not be required in ASAE 3500. The AUASB is asked to consider whether these matters are key requirements from the AUASB Standards which need to be reflected in ASAE 3500 to provide a consistent approach or if they are unique to attestation engagements and so are not needed in ASAE 3500 either because they are not applicable to direct engagements or not applicable to the circumstances in performance engagements. These matters are:
 - (a) Terms of Engagement – written terms of engagement required for engagements initiated by the engaging party, should this also be required to be agreed by the assurance practitioner and the responsible party where the engagement is initiated by the assurance practitioner, as is the case for the auditors-general?
 - (b) Assurance report content – where the engagement was initiated by the auditor-general, elements which were clearly understood need not be restated, including that it is not necessary, in the case of an auditor-general, to state in the assurance report:
 - (i) That the assurance practitioner is independent.
 - (ii) The performance engagement principles applied.
 - (iii) The period covered by the performance engagement.
 - (iv) Identification of the criteria, which may be too detailed for some reports.
 - (v) The responsible party's responsibility for the activity.
 - (vi) The assurance practitioner's responsibility for expressing a conclusion on the activity's performance.
 - (vii) That the engagement was conducted in accordance with ASAE 3500.

- (viii) The limitations of a performance engagement in projecting to future performance.
- (ix) If sufficient appropriate evidence could not be obtained or there are material shortcomings in the activity's performance, a conclusion that the activity did not perform in all respects, did not perform in certain respects or there was not sufficient appropriate evidence to conclude.
- (c) Shortcomings and scope limitation – as most performance engagements identify areas for improvement so this requirement may result in every report being “qualified”. Some views were that these types of qualifications would be too negative and focus should be more on improvement opportunities rather than on lack of performance.
- (d) Other communication responsibilities – There was concern regarding the requirement to “endeavour to obtain written representations” and some PAG members suggested that this was too onerous as representations may not be able to be obtained. Requirements regarding communication of findings to the responsible party are usually legislated for the auditors-general and the number of days which they are to be provided to respond to the findings before the report is published (usually 21 or 28 days) is also legislated. Reporting of fraud and other misconduct is usually also set out in legislation for the auditors-general, so some members of the PAG queried the need for paragraphs requiring communication with the responsible party. Nevertheless, one purpose of the standard is to achieve consistency in approach between different audit offices and also to address private sector engagements. Whilst the assurance practitioner may be unsuccessful in obtaining the written representation, it would be reasonable to request them and provides an opportunity for the responsible party to provide further information.

Manner of defining performance engagements

4. Currently the draft ASAE 3500 provides the first objective of a performance engagement: “to obtain reasonable assurance about an activity's performance in achieving intended outputs or outcomes against identified criteria, during the period” and defines a performance engagement as: “An assurance engagement to conclude on the performance, in the context of identified performance principles, of an activity, within a single entity or across multiple entities, in achieving intended outputs or outcomes, commonly referred to as a performance audit.” One suggestion from the PAG is to simplify this objective to: “to obtain reasonable assurance about an activity's performance in achieving intended outputs or outcomes against identified criteria, during the period, and that “outputs and outcomes” are terms not needed to be used in the standard.
5. The AUASB is asked to consider whether:
 - (a) Inputs and outcomes of the activity should be linked to the objective of the performance engagement. Identifying which outputs or outcomes the evaluation of the activity's performance relates to is one of the key basis on which the criteria are determined. Criteria are measures of performance but meeting those criteria will be indicative of the level of performance achieved rather than conclusive. Performance can only be understood in the context of what the activity is seeking to achieve – an output or outcome. The assurance practitioner would need to use their professional judgement in evaluating the findings with respect to the extent to which the activity met each criteria and consider the impact on their conclusion.
 - (b) The time period to which the performance engagement relates should be included in the engagement objective and likewise arguably will need to be included in the assurance report. The time period is an important element of the scope of the engagement and aids the users understanding of the context in which to read and understand the assurance practitioner's report. It also is important in planning and conducting the engagement to have defined the period over which evidence is required to support the conclusion. If evidence is obtained relating to another time period, it may well still be relevant in providing context for the period to be covered and as evidence of a trend for example, but would not be direct evidence of the activity's performance. It may be an appropriate alternative to also allow for reports to be at a point in time.

Part B – NZAuASB

1. This is not a joint project with NZAuASB, as currently NZAuASB does not plan to issue an equivalent of ASAE 3500, as this topic is not within its mandate.
2. The AUASB Technical Group is participating in the NZAuASB Working Group to support the NZ project to develop a standard on assurance of *Service Performance Information* and monitoring the joint AASB and NZ XRB project to develop an accounting standard on *Reporting Service Performance Information*. Engagements under ASAE 3500 are distinct from engagements on Service Performance Information, consequently ASAE 3500 will not include those engagements.

AUASB Technical Group Recommendations

The AUASB Technical Group requests that the AUASB provide comments on the draft revised ASAE 3500 and specifically feedback on the matters raised in Part A of this paper.

Material Presented

Agenda Item 8(c)	AUASB Board Meeting Summary Paper
Agenda Item 8(c).1	Draft revised ASAE 3500 <i>Performance Engagements</i> (Marked Up Version)

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Consider draft revised ASAE 3500.	Provide comments on the draft standard.	AUASB	15 Sept 2015	Pending



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9(a)**

Meeting Date: 15 September 2015

Subject: IAASB Meeting 21-25 September 2015

Date: 8 September 2015

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objective

To provide the AUASB, for information and discussions, selected agenda papers for the IAASB Meeting to be held in New York on 21-25 September 2015, to be attended by the AUASB Chairman and Executive Director.

Material Presented

Agenda Item 9(a) Board Meeting Summary Paper

Agenda Item 2 – Auditor Reporting - ISA 800 and ISA 805

Agenda Item 2-F Proposed ISA 800 (Revised) (Marked from ED)

Agenda Item 2-G Proposed ISA 805 (Revised) (Marked from ED)

Agenda Item 3 - Integrated Reporting

Agenda Item 3-A *Issues Paper: Assurance Engagements with Regard to Integrated Reporting and Other Emerging Developments in External Reporting – Issues and Proposed Way Forward*

Agenda Item 3-B *Working Group Publication: Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting*

Agenda Item 4 – Enhancing Audit Quality

Agenda Item 4-A Responding to Public Interest Calls to Enhance Audit Quality—Issues and WGs’ Recommendations

Agenda Item 4-B Draft Invitation to Comment—Responding to Public Interest Calls to Enhance Audit Quality

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Agenda Item 6 - Data Analytics (cover page)

Agenda Item 7 - Financial Institutions

Agenda Item 7-A	Issues and Working Group Recommendations
Agenda Item 7-B	Gap Analysis of ISA 540 and Identified Audit Issues Arising From IFRS 9 and Others
Agenda Item 7-C	List of Possible Topics to be Included in Invitation to Comment

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AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 9(b)
Meeting Date: 15 September 2015
Subject: Draft AUASB submission on IAASB Exposure Draft re ISA 810
Date Prepared: 3 September 2015

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To consider the draft AUASB submission on the exposure draft containing limited auditor reporting conforming amendments to ISA 810 *Engagements to Report on Summary Financial Statements*.

Background

The IAASB released its exposure draft on 10 August 2015. The comment period closes on 2 November 2015.

Matters to Consider

Part A – General

The AUASB is asked to consider the draft submission at Agenda Item 9(b).1

Part B – NZAuASB

The NZAuASB released its equivalent of the ED at the same time as the IAASB, with its comment period closing 7 October 2015.

Part C – “Compelling Reasons” Assessment

N/A

The proposed changes conform with IAASB modification guidelines for NSS?
n/a

Y ☐ N ☐

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AUASB Technical Group Recommendations

The AUASB Technical Group recommends that the AUASB approve the submission.

Material Presented

Agenda Item 9(b)	AUASB Board Meeting Summary Paper
Agenda Item 9(b).1	Draft AUASB submission [confidential]
Agenda Item 9(b).2	Exposure Draft ISA 810

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB to approve submission	Approval	AUASB	15 September 2015	o/s



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **9(c)**

Meeting Date: 15 September 2015

Subject: NOCLAR – Proposed Amendments to International Standards

Date Prepared: 1 September 2015

☒ Action Required

☐ For Information Purposes Only

Agenda Item Objectives

To inform the Board and seek input on the IAASB's Exposure Draft, *Proposed Amendments to the IAASB's International Standards—Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations*.

Background

The IAASB released an Exposure Draft, Proposed Amendments to the IAASB's International Standards—Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations, to propose limited amendments to the IAASB's International Standards in response to IESBA's May 2015 Re-Exposure Draft, Responding to Non-Compliance with Laws and Regulations.

The IESBA's Exposure Draft proposes a framework for professional accountants in deciding how best to act in the public interest when they come across an act or suspected act of non-compliance with laws and regulations.

The focus of the IAASB's Exposure Draft is proposed amendments ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements, with less extensive changes proposed to seven other standards. The IAASB's proposals seek to acknowledge the enhancements that will be made by the IESBA in the Code and clarify and emphasize key aspects of the IESBA's proposals in the IAASB's International Standards.

Changes proposed by ED

<i>Standard and Paragraph impacted</i>	<i>Explanation of the change</i>
ISA 250, Para 8a ISA 240, Para 8a	Brings aspects of IESBA's NOCLAR proposals to the auditor's attention highlighting that the auditor may have additional obligations under relevant ethical requirements regarding NOCLAR.
ISA 250, Para A5a	Includes examples of laws and regulations
ISA 250, Para A12a, A17	Implications of NOCLAR, for example even if non-compliance is not material, the auditor may re-evaluate the integrity of management.
ISA 250, Para 28, Para A19 ISQC 1, Para A56 ISA 240, Para 43, A65 ISRE 2400, Para A92	Consideration of auditor's duty of confidentiality, particularly their legal or ethical duty or right to report the NOCLAR outside of the entity.

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ISA 250, Para A15 ISA 240, Para A59a, A65 ISA 260, Para 7 ISA 450, Para A8	Law or regulation may prohibit “tipping off” the entity.
ISA 250, Para A16	Auditors may consult on a confidential basis with others within the firm/network, professional body, and auditor’s legal counsel.
ISA 250, Para A18a	Examples of circumstances that may cause the auditor to evaluate the implications of non-compliance on the reliability of written representations of management and TCWG
ISA 220, Para 8a	New application material providing guidance to the the auditor to highlight NOCLAR requirement for the auditor to communicate with the predecessor auditor prior to accepting the engagement.

Specific Questions for the AUASB:

1. Does the AUASB have any issues with the proposed changes?
2. Are the proposed changes, clear enough?
3. Are there any issues with the effective date—it is anticipated that the effective date of the amendments to the IAASB’s International Standards would be aligned with the effective date of the NOCLAR standards, which the IESBA will determine in due course.
4. Is it beneficial for the IAASB to further consider (and include in a later work plan):
 - (a) Whether the existing distinction between the types of laws and regulations (see paragraph 6 of ISA 250) and the different levels of work effort applied to each under extant ISA 250 warrants further investigation or revision.
 - (b) Whether ISA 250 should address making inquiries of management or, when appropriate, TCWG, regarding NOCLAR that may occur.
 - (c) Whether ISA 250 should include a requirement to obtain an understanding of how management identifies and addresses known or suspected NOCLAR as an essential component in obtaining an understanding of the entity and its environment.
 - (d) How ISA 250 addresses personal misconduct related to the business activities of the entity or parties associated with the entity, including contractors.
 - (e) How NOCLAR is addressed in other ISAs, such as when dealing with auditor’s experts and in a group audit situation.⁴

AUASB Technical Group Recommendations

The technical group recommends that the AUASB sends in a submission to the IAASB which is supportive of the amendments proposed in the Exposure Draft and include any additional commentary provided by the AUASB.

Material Presented

Agenda Item 9(c)	AUASB Board Meeting Summary Paper
Agenda Item 9(c).1	The IAASB’s Exposure Draft, <i>Proposed Amendments to the IAASB’s International Standards—Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations</i> .

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Provide comments to include in submission to the IAASB.	Comments	AUASB	15 September 2015	O/S

AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 10(a)

Meeting Date: 15 September 2015

Subject: Emissions Reduction Fund and Clean Energy Regulator Update

Date Prepared: 28 August 2015

☐ Action Required

☒ **For Information Purposes Only**

Agenda Item Objectives

1. To provide the AUASB with an update on developments in relation to:
 - a. The Emissions Reduction Fund (ERF) and the Safeguard Mechanism, including the activities of the Department of Environment in developing legislation and regulation for the schemes, and the Clean Energy Regulator (CER), who administers the schemes.
 - b. The National Greenhouse and Energy Reporting (NGER) and related schemes which the Clean Energy Regulator (CER) administers.
2. To monitor when Guidance Statement GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* will be updated to reflect the current schemes.

Background

Policy

The Department of Environment is responsible for policy development in relation to climate change and is responsible for developing the policy with respect to:

- ERF - the legislation necessary to implement the scheme and the methodology determinations for quantification of abatements under each type of project.
- Safeguard Mechanism - designed to encourage businesses not to increase emissions above historical levels.

Regulation

The CER is responsible for the administration of schemes related to climate change, which currently include:

- National Greenhouse and Energy Reporting Scheme (NGERS) – on-going reporting requirements.
- ERF – auctions to purchase abatements and monitoring of reporting and assurance under the abatement contracts issued.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- Proposed Safeguard Mechanism – Large emitters will be required to keep their emissions below a set baseline, based on historical NGERS data. They will be able to surrender credits to offset any emissions over the baseline.
- Renewable Energy Target - encourages the additional generation of electricity from sustainable and renewable sources by requiring electricity retailers to surrender certificates to the CER, for electricity purchased from the coal or gas-fired power generators.

The ERF has been introduced by way of amendments to the *Carbon Credits (Carbon Farming Initiative) Act 2011*, issued in February 2015, which provide for the CER to conduct auctions and enter into contracts to purchase emissions reductions. The amendments enable a broader range of emissions reduction projects to be approved, as well as amending the project eligibility criteria and processes for approving projects and crediting carbon credit units. The ERF formally commenced on 12 December 2014 and the first auction under the ERF was held in April 2015. The auctions will be used by the CER to purchase emissions abatements in the form of Australian carbon credit units (ACCUs), on behalf the Government. ERF contracts include a schedule for the delivery of ACCUs submitted by the project proponent, reporting under the scheme and will be subject to an audit, the frequency of which will depend on the volume of abatement.

The AUASB advised the Department of Environment in drafting *Carbon Credits (Carbon Farming Initiative) Rule 2015*. The Rules specify the nature and frequency of the audit requirements and the form of the audit reports to be provided with respect to ERF projects. The Rules provide for projects to undertake an initial audit at the beginning of the crediting period with a minimum of three audits, including the initial audit, in total over crediting periods of seven years or more.

During the year the Department of Environment have been progressively issuing methodology determinations for each new activity which the ERF encompasses. Existing CFI projects were automatically transitioned to the ERF when it commenced on 12 December 2014. Changes to current and new methods will not affect these existing projects, in that they may either continue to operate under their existing CFI methods or apply to use an applicable ERF method.

Matters to Consider

The first ERF audits may be commencing in or after the last quarter of 2015 with respect contracts entered into at the first auction in April 2015. Initial audits can be conducted on project reports for a period of at least 6 months and up to 2 years into the crediting period (or 5 years into the crediting period for sequestration projects). At least 2 subsequent audits are also required for each project depending on the average abatements. The second auction under the ERF for the government to purchase abatements will be held on 4-5 November 2015.

The Safeguard Mechanism will start in 2016 and will require the largest emitters to keep their emissions below a set or historical baseline. The AUASB Technical Group has advised the Department of Environment on the assurance requirements with respect to Safeguard Mechanism baseline applications. An exposure draft *National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015* which includes these requirements was issued for public consultation on the 2nd September 2015.

With the repeal of CPM and related assistance schemes and the introduction of the ERF and proposed Safeguard Mechanism, GS 021 is now out-of-date. However, the AUASB agreed at the July meeting to delay amendments to GS 021 until the ERF is bedded down, the Safeguard Mechanism is in place and the future of the various schemes is clear. In the meantime, the CER are updating the Audit Determination Handbook to reflect the ERF audit requirements and have been consulting with the AUASB in this regard.

Material Presented

Agenda Item 10(a) AUASB Board Meeting Summary Paper



AUASB STRATEGY 2015-2019

AUASB Vision Statement

To be recognised by key stakeholders as a leading national auditing and assurance standards-setting body.

AUASB Mission Statement

To develop, in the public interest, high quality auditing and assurance standards and related guidance as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services.

AUASB Strategic Objectives

1. *Increase confidence in assurance on external reporting by contributing to the development of and converging with one set of robust international auditing and assurance standards*
2. *Be recognised by key stakeholders as the standards-setting body in Australia that formulates and maintains auditing and assurance standards and guidance pronouncements that address local issues*
3. *Provide thought leadership, identify and respond to emerging issues*
4. *Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements*
5. *Harmonise Australian and New Zealand auditing and assurance standards*

AUASB Initiatives and Functions Mapped to Strategy and KPI's for 2015-2019

Strategic Objectives	Strategic Initiative and 2016	2015-16	2016-17	2017-18	2018-19
1. <i>Increase confidence in assurance on external reporting by contributing to the development of, and convergence with, one set of robust international auditing and assurance standards</i>	Participate in IAASB activities:				
	• Attend and actively contribute to <u>quarterly</u> IAASB meetings;	✓	✓	✓	✓
	• Participate in the <u>annual</u> IAASB-NSS meeting;	✓	✓	✓	✓
	• Contribute to relevant IAASB projects and as appropriate, participate in IAASB working groups; and	✓ <IR>, ISRS 4400	✓ at least one	✓	✓
	• Provide AUASB submissions to the IAASB on all exposure drafts and discussion and consultation papers.	✓ Revision of ISA 720, ISA 800, 805	✓ at least one	✓	✓
	AUASB international-related initiatives:				
	• Issue IAASB related Australian equivalent exposure drafts in a timely manner;	✓	✓	✓	✓
	• IAASB equivalent, or ISA plus, standards adopted by the AUASB with the same application dates;	✓	✓	✓	✓
	• Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards;	✓	✓	✓	✓
	• Respond to all IAASB and NSS feedback requests and surveys; and	✓	✓	✓	✓ AR project
	• Actively promote and maintain a strong relationship with the IAASB and other National Standards Setters (NSS).	✓ Liaise pre annual NSS mtg	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
2. Be recognised by key stakeholders as the standards-setting body in Australia that formulates and maintains auditing and assurance standards and guidance pronouncements to address local issues	Increase awareness and acceptance of AUASB pronouncements, in particular, their application to government agencies and other bodies: Actively liaise and engage with regulatory agencies, including ASIC, APRA, ACNC, CER, and ATO, to encourage their audit and other assurance requirements to be aligned with AUASB pronouncements.	✓ at least Quarterly	✓	✓	✓
	Formulate and maintain high quality Australian Auditing and Assurance Standards that conform with the IAASB equivalents, address local regulatory issues and promote consistency in application: Consider Australian legislative and other regulatory requirements when considering adoption of IAASB standards and identify any changes that may be consequentially required to the Auditing and Assurance Standards via the <i>compelling reasons</i> test.	✓ for each new/revised standard	✓	✓	✓
	Reflecting the above, issue AUASB auditing and assurance standards that conform with IAASB equivalent standards, and develop standards for other areas, addressing auditing and assurance needs identified for Australia.	✓	✓	✓	✓
	Formulate and maintain high quality Guidance Statements and other pronouncements that address local regulatory and other issues and promote consistency in application: Develop and revise, as appropriate, AUASB Guidance Statements which will provide practical guidance to auditors and assurance practitioners on industry related areas, such as those regulated by ASIC, APRA, ATO, CER and other regulators.	✓	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
3. Provide thought leadership, identify and respond to emerging issues	Identify and respond to significant auditing and assurance issues of public interest on a timely basis: - Identify emerging issues (such as integrated reporting, data analytics) and determine appropriate action; - Participate in determining policy issues and any amendments to legislation and regulation arising from the international debate on audit quality and audit regulation; - Respond to local and international developments to enhance the role, relevance and quality of audit and assurance services to promote audit quality systemically and at the engagement level; - Enhance the profile of the AUASB as a leading national standards-setter as a result of activities involving thought leadership; - Consult with subject matter experts, where appropriate, in addressing the key emerging topics as identified from time to time; and - Contribute to policy debates, such as the external reporting framework and appropriate assurance.	√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
3 Provide thought leadership and identify emerging issues (cont'd)	Proactively monitor international developments on auditing and assurance including: Monitor the activities of other auditing standards-setting bodies (including Canada, France, Germany, Netherlands, United Kingdom, United States and South Africa) and the work of other international regulatory bodies (including IOSCO, PCAOB and IFIAR), and consider any matters they have considered that may potentially impact on AUASB pronouncements;	✓ monthly	✓	✓	✓
	Monitor and promote the work of other international bodies, such as FEE and the IIRC; and	✓ monthly	✓	✓	✓
	Prepare International Auditing and Assurance Update e-publication covering IAASB and other national auditing standards-setters' activities for AUASB meetings and for publishing on the AUASB website.	✓ at least quarterly	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
4. Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements	Actively engage with stakeholders: - Engage with Australian stakeholders, regulatory bodies, professional accounting bodies, practitioners, preparers, users and other stakeholders (including Australian Treasury, ASIC, APRA, ACNC, CER and ATO) to promote audit quality and consistency in the application of AUASB pronouncements: - engage directly with key stakeholders on a timely basis on topical issues; - conduct topic-specific roundtable meetings to gather feedback; - conduct surveys to identify the needs of stakeholders and other users of auditing and assurance services; and - conduct the annual AUASB Consultative Meeting with stakeholders to discuss significant projects and to obtain their input on what should be the AUASB's work plan priorities; - Conduct post-implementation reviews of all issued AUASB standards; - Engage with practitioners, professional bodies and regulators to assist with consistent understanding, and implementation, of the principles underlying standards and the resultant work effort and evidence requirements; and - Engage with the FRC through the AUASB Chairman's active involvement, including through membership of Audit Quality Committee;	✓ regularly ✓ ✓ on major proposals ✓ 19 April 2016 ✓ ASAEs 3420 & 3450 ✓ at least Quarterly	✓ ✓ ✓ ✓ April 2017 ✓ ✓	✓ ✓ ✓ ✓ April 2018 ✓ ✓	✓ ✓ ✓ ✓ April 2019 ✓ ✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
4. Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements (cont'd)	- Participate in public debate, conferences and seminars on topics relevant to global auditing and assurance standards and strategic audit and assurance issues; and - Contribute articles for relevant professional publications that highlight key principles of, or major changes to, the AUASB pronouncements.	√	√	√	√
		√	√	√	√
	Identify AUASB stakeholders and understand their needs and expectations:				
	Conduct stakeholder satisfaction survey and use feedback results to obtain benchmark for performance improvement;	√ develop	√ monitor & improve	√	√
	Create and maintain a key stakeholders contacts database; and	√ create	√ maintain & improve	√	√
	Increase media mentions, social media activity and level of participation at AUASB events.	√ create	√ monitor & grow		

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
5. Harmonise Australian and New Zealand auditing and assurance standards	Harmonise, wherever possible, given the different regulatory environments, Australian and New Zealand Auditing and Assurance Standards through working actively with the NZAuASB: - Engage with the NZAuASB Chairman, NZAuASB staff and relevant board members when drafting auditing and assurance standards that will be adopted jointly to understand if there are likely to be any harmonisation differences; and - Collate and reconcile any differences between Australian and New Zealand standards, and the reasons therefor: - prepare compelling reasons test documentation to explain all differences, including with any underlying IAASB standard(s).	✓ review board papers and provide feedback ✓ Service Performance Reporting project	✓ ✓	✓ ✓	✓ ✓



Auditing and Assurance Standards Board Corporate Plan 2015-16





AUASB Corporate Plan 2015–16

1. Introduction

- 1.1 I, Merran Kelsall, as the accountable authority of the Auditing and Assurance Standards Board (AUASB), present the 2015-16 AUASB Corporate Plan, which covers the periods 2015-16 to 2018-19, as required under section 35(1) (b) of the *Public Governance, Performance and Accountability Act 2013*.

2. Purpose

- 2.1 The AUASB is established by the *Australian Securities and Investments Commission Act 2001* and its functions under section 227B(1) are to:

- make auditing standards under section 336 of the *Corporations Act* for the purposes of the corporations legislation; and
- formulate auditing and assurance standards for other purposes; and
- formulate guidance on auditing and assurance matters; and
- participate in and contribute to the development of a single set of auditing standards for world-wide use; and
- advance and promote the main objects of this Part (Part 12).

[Section 224 of the *ASIC Act* states the objectives of Part 12 – which include:

“(aa) To facilitate the development of auditing and assurance standards and related guidance materials that:

- i. provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the *Corporations Act 2001*; and
- ii. require the preparation of auditors’ reports that are reliable and readily understandable by the users of financial reports to which they relate”.

Other relevant objectives of Part 12 are summarised below:

- to facilitate the Australian economy by having (accounting and) auditing standards that are clearly stated and easy to understand; and
- to maintain investor confidence in the Australian economy (including its capital markets).

- 2.2 The AUASB’s vision is to be recognised as a leading national auditing and assurance standards-setting body. The AUASB sees its mission as to develop, in the public interest, high quality auditing and assurance standards and related guidance as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services.

Strategy

2.3 To fulfil this purpose, the AUASB has developed the following strategic objectives:

1. Increase confidence in assurance on external reporting by contributing to the development of and converging with one set of robust international auditing and assurance standards.
2. Be recognised by key stakeholders as the standards-setting body in Australia that formulates and maintains auditing and assurance standards and guidance pronouncements that address local issues.
3. Provide thought leadership, identify and respond to emerging issues.
4. Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements.
5. Harmonise Australian and New Zealand auditing and assurance standards.

2015-16 Key Priorities

2.4 The AUASB's key priorities for 2015-16 include:

- (a) issuing new auditing standards based on International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB)) on topics such as auditor reporting, the auditor's consideration of other information, and auditing disclosures;
- (b) revising and issuing assurance standards on the areas of compliance engagements and performance engagements, and considering the assurance implications of the Australian Accounting Standards Board's (AASB) service performance reporting project;
- (c) revising auditing guidance statements on areas such as AFSL audit reports, auditing self-managed superannuation funds, the responsibilities of auditors at annual general meetings, and audit implications of data and analytics;
- (d) engaging with stakeholders through the use of forums, roundtables and annual consultative meetings on the IAASB's various new projects such as non-compliance with laws and regulations (NOCLAR), quality control, group audits, professional scepticism, and auditing financial institutions;
- (e) providing formal submissions to IAASB exposure drafts and other consultation documents relating to the above projects, as well as on any new proposals released by the International Integrated Reporting Council (IIRC);
- (f) conducting post-implementation reviews on various auditing and assurance standards as appropriate within Australia;
- (g) in conjunction with the AASB, considering the audit implications of research on the Australian financial reporting framework, aimed at informing policy makers on cost-beneficial reforms, including research on financial reporting thresholds within Australia; and
- (h) working with other Australian Government agencies such as APRA, ASIC, ACNC, CER and the ATO to encourage their audit and assurance requirements to be aligned to AUASB pronouncements.



3. Environment

Standard-setting

International standards-setting

- 3.1 The AUASB has a substantial body of standards and an assurance framework that address the vast majority of auditing and assurance issues facing entities in all sectors (private, public, for-profit and not-for-profit). Entities required by the *Corporations Act 2001* to lodge financial statements must have their financial reports audited in accordance with the AUASB's auditing standards, and many other types of entities are also generally required to be audited in accordance with those standards.
- 3.2 Standards-setting is an international global activity. The IAASB is well-recognised as the world's major international auditing and assurance standards-setter, with ISAs being applied in more than 100 countries, including Canada, New Zealand, South Africa, various countries in Asia and South America and 25 of the member countries in the European Union.
- 3.3 The use of international auditing and assurance standards in Australia is in accordance with a Strategic Direction made by the Financial Reporting Council (FRC) in April 2005. ISAs and International Standards on Assurance Engagements (ISAEs) issued by the IAASB form the basis of the AUASB's auditing and assurance standards.
- 3.4 Paragraph 3.3 notes that much of the work undertaken by the AUASB is based on the IAASB's standards. Consequently, much of the AUASB's work program is also based on the IAASB's work plan. Reliance on the IAASB to issue consultation documents within time-frames specified in their work-plans can affect the AUASB's achievement of its key priorities. If IAASB projects are delayed, so are those projects of the AUASB. Therefore, this area is beyond the control of the AUASB. Should this occur, this will affect the key priorities set out in paragraph 2.4(a) above.
- 3.5 The use of ISAs and ISAEs and our engagement internationally is vital to having standards that result in financial reporting that enables entities to raise capital efficiently internationally. This has beneficial flow-on effects in the domestic capital market for all entities and individuals.
- 3.6 However, the quality of standards developed by the IAASB is dependent on three factors: quality of IAASB board membership, quality of IAASB staff resources and effective feedback from IAASB constituents.
- 3.7 The AUASB strives to mitigate these risks by engaging directly with the IAASB, through the AUASB Chairman's membership of the IAASB and participation on various working groups and the IAASB Steering Committee, and by providing input into all IAASB exposure drafts and other consultation documents, as a means to influence the quality of international standards.
- 3.8 The AUASB also seeks to influence the IAASB by developing close working relationships and alliances with other national standards-setters. This includes maintaining a close relationship, in particular, with the New Zealand Auditing and Assurance Standards Board (NZAuASB), the Canadian Assurance Standards Board, the UK Financial Reporting Council (Auditing Standards Committee), the South African Independent Regulatory Board for Auditors and the IDW Auditing Standards Board in Germany.



- 3.9 The standards-setting environment internationally is both collaborative, in terms of there being a common interest in determining reporting solutions that can be usefully applied across the world, and competitive, with different jurisdictions keen to promote the views of their own constituents, particularly within the European Union and the United States of America.
- 3.10 In this global environment, a national standards-setter's reputation is crucial and the AUASB's work is well regarded among other national standards-setters. The AUASB is therefore, well placed to fulfil the purpose outlined in paragraph 2.1 with the AUASB Chairman having been re-appointed to the IAASB in recent years for a second term and for having been appointed to the IAASB Steering Committee and as a public interest member in 2015.

Domestic standards-setting and guidance

- 3.11 The AUASB also undertakes domestic standards-setting projects that are intended to address jurisdictional issues not addressed by the IAASB. In this context, the AUASB consults widely within Australia on other subject areas. It considers issues affecting assurance standards not directly covered by the IAASB. For example, the AUASB currently has under revision, assurance standards relating to compliance engagements and performance engagements undertaken in both the private and public sectors. The AUASB has formed separate project advisory groups (PAGs) to consult and involve key stakeholders with an interest in these areas. In previous years, the AUASB has also developed Australian assurance standards in the areas of comfort letters, corporate fundraisings, water accounting assurance, and assurance on controls engagements. Unlike projects influenced by international standards-setters and their project timetables, domestic projects are generally within the AUASB's control. However, a key factor that can influence the success of projects are the actions or published policy documents of other regulatory agencies (for example, ASIC, APRA and the ATO) and feedback from constituents.

Technology

- 3.12 The manner in which the AUASB delivers standards and guidance and provides information on its pronouncements standards is changing. The use of electronic and social media is becoming increasingly important to be able to deliver information to stakeholders on a timely basis. Newly issued standards and /or consultation documents are no longer printed but are made available on the AUASB website with constituents being notified of their issuance electronically via web alerts and media releases. This allows constituents faster access to documents. The AUASB is also considering establishing a LinkedIn account, webinars and Twitter to keep stakeholders updated with not only the AUASB's activities, but those of other standard-setters.

Regulatory

- 3.13 The AUASB is an auditing and assurance standards-setter, but unlike some overseas bodies, not a regulator of its own standards, which is largely the function of the ASIC, APRA and other Australian regulatory agencies such as the ACNC, ATO and CER.
- 3.14 The process by which the AUASB formulates its standards and guidance is expansive and interrelated with the international standard-setting process, as well as being subject to Commonwealth due process requirements. Thorough and wide-ranging consultation with stakeholders is at the core of the AUASB's work.



4. Performance

- 4.1 The AUASB's five strategies are the basis for effectively pursuing its statutory functions and responsibilities. Appendix A maps the AUASB's strategies to its statutory functions and Appendix B relates the strategies to KPIs for each of the next four years. The AUASB's annual performance statements will be based on these KPIs.
- 4.2 As explained in Section 3, many of the KPIs are not wholly within the control of the AUASB because the outcomes depend on the actions of many other parties.
- 4.3 The AUASB will consider it is successful, if it is seen as a progressive forward looking standards-setter and its standards are well regarded, recognised and adopted.

5. Capability

Strategies

- 5.2 The AUASB is well-placed to implement its five strategies with the skills and expertise currently available to it, albeit with limited resources of 7.1 equivalent full-time professional and administrative staff.

Resources

- 5.3 The AUASB board membership is both experienced and diverse in background. The FRC appoints all board members as individuals, except for the Chairman, who is appointed by the Minister.
- 5.4 AUASB staff have a range of professional backgrounds, including accounting practice, industry, the public sector and academia. Collectively, they possess many years of technical auditing and assurance experience, which they bring to auditing and assurance standards-setting.
- 5.5 The AUASB has a wide network of contacts among Australian stakeholders who have proven willing to volunteer their time and expertise to help us fulfil our strategies, including by providing technical input, thoughts and ideas on our work. The AUASB also has a strong network of contacts throughout the international standard-setting community, which is a valuable source of collaboration and alliances.
- 5.6 The AUASB receives all of its funding from the Commonwealth.
- 5.7 To ensure that AUASB staff have the appropriate skills to implement its strategies, both now and in the future, ongoing staff training and professional development are provided.

6. Risk oversight and management

Standards

- 6.1 There are two arms of the AUASB:
 - (a) the Board itself; and
 - (b) the Office of the AUASB that employs the staff who support the Board.
- 6.2 The Board makes technical decisions and the standards themselves with the benefit of information from the staff and other sources. All technical deliberations are conducted in public. Accordingly, the standards-setting process is conducted in the 'sunlight' and



the basis for the Board's major decisions are made public in board meeting minutes and published basis for conclusions documents relating to standards-setting.

- 6.3 The FRC has oversight of the standards-setting process and is itself comprised of part-time members appointed by the relevant Minister. The FRC membership represents a wide range of the AUASB's stakeholder groups.
- 6.4 The AUASB complies with the Commonwealth Risk Management Policy. The policy is reviewed at least annually in consultation with the AUASB's Audit Committee. The AUASB also maintains a risk register, which is regularly updated.

Management

- 6.5 The AUASB has an Audit Committee, with a majority of external members, who oversee risk management at the administrative level.



Map of AUASB Strategies to its Statutory Functions and Relationship to KPI's for 2015-2019

Strategy	Function	Make auditing standards under section 336 of the <i>Corporations Act</i> for the purposes of the corporations legislation	Formulate auditing and assurance standards for other purposes	Formulate guidance on auditing and assurance matters	Participate in and contribute to the development of a single set of auditing standards for world-wide use	Advance and promote the main objects of this Part (Part 12)
1. Increase confidence in assurance on external reporting by contributing to the development of and converging with one set of robust international auditing and assurance standards		✓	✓		✓	✓
2. Be recognised by key stakeholders as the standards-setting body in Australia that formulates and maintains auditing and assurance standards and guidance pronouncements that address local issues		✓	✓	✓		✓
3. Provide thought leadership, identify and respond to emerging issues		✓	✓	✓	✓	✓
4. Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements		✓	✓	✓	✓	✓
5. Harmonise Australian and New Zealand auditing and assurance standards		✓	✓		✓	✓

AUASB Initiatives and Functions Mapped to Strategy and KPI's for 2015-2019

Strategic Objectives	Strategic Initiative and KPIs	2015-16	2016-17	2017-18	2018-19
1. Increase confidence in assurance on external reporting by contributing to the development of, and convergence with, one set of robust international auditing standards	Participate in IAASB activities:				
	• Attend and actively contribute to <u>quarterly</u> IAASB meetings;	✓	✓	✓	✓
	• Participate in the <u>annual</u> IAASB-NSS meeting;	✓	✓	✓	✓
	• Contribute to relevant IAASB projects and as appropriate, participate in IAASB working groups; and	✓ <IR>, ISRS 4400	✓ at least one	✓	✓
	• Provide AUASB submissions to the IAASB on all exposure drafts and discussion and consultation papers.	✓ Revision of ISA 720, ISA 800, 805	✓ at least one	✓	✓
	AUASB international-related initiatives:				
	• Issue IAASB related Australian equivalent exposure drafts in a timely manner;	✓	✓	✓	✓
	• IAASB equivalent, or ISA plus, standards adopted by the AUASB with the same application dates;	✓	✓	✓	✓
	• Conduct post-implementation reviews of IAASB equivalent issued AUASB Standards;	✓	✓	✓	✓
	• Respond to all IAASB and NSS feedback requests and surveys; and	✓	✓	✓	✓ AR project
	• Actively promote and maintain a strong relationship with the IAASB and other National Standards Setters (NSS).	✓ Liaise pre annual NSS mtg	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
2. Be recognised by key stakeholders as the standards-setting body in Australia that formulates and maintains auditing and assurance standards and guidance pronouncements to address local issues	Increase awareness and acceptance of AUASB pronouncements, in particular, their application to government agencies and other bodies: Actively liaise and engage with regulatory agencies, including ASIC, APRA, ACNC, CER, and ATO, to encourage their audit and other assurance requirements to be aligned with AUASB pronouncements.	✓ at least Quarterly	✓	✓	✓
	Formulate and maintain high quality Australian Auditing and Assurance Standards that conform with the IAASB equivalents, address local regulatory issues and promote consistency in application: Consider Australian legislative and other regulatory requirements when considering adoption of IAASB standards and identify any changes that may be consequentially required to the Auditing and Assurance Standards via the <i>compelling reasons</i> test.	✓ for each new/revised standard	✓	✓	✓
	Reflecting the above, issue AUASB auditing and assurance standards that conform with IAASB equivalent standards, and develop standards for other areas, addressing auditing and assurance needs identified for Australia.	✓	✓	✓	✓
	Formulate and maintain high quality Guidance Statements and other pronouncements that address local regulatory and other issues and promote consistency in application: Develop and revise, as appropriate, AUASB Guidance Statements which will provide practical guidance to auditors and assurance practitioners on industry related areas, such as those regulated by ASIC, APRA, ATO, CER and other regulators.	✓	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
3. Provide thought leadership, identify and respond to emerging issues	Identify and respond to significant auditing and assurance issues of public interest on a timely basis: - Identify emerging issues (such as integrated reporting, data analytics) and determine appropriate action; - Participate in determining policy issues and any amendments to legislation and regulation arising from the international debate on audit quality and audit regulation; - Respond to local and international developments to enhance the role, relevance and quality of audit and assurance services to promote audit quality systemically and at the engagement level; - Enhance the profile of the AUASB as a leading national standards-setter as a result of activities involving thought leadership; - Consult with subject matter experts, where appropriate, in addressing the key emerging topics as identified from time to time; and - Contribute to policy debates, such as the external reporting framework and appropriate assurance.	√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√
		√	√	√	√

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
3 Provide thought leadership and identify emerging issues (cont'd)	Proactively monitor international developments on auditing and assurance including:				
	Monitor the activities of other auditing standards-setting bodies (including Canada, France, Germany, Netherlands, United Kingdom, United States and South Africa) and the work of other international regulatory bodies (including IOSCO, PCAOB and IFIAR), and consider any matters they have considered that may potentially impact on AUASB pronouncements;	✓ monthly	✓	✓	✓
	Monitor and promote the work of other international bodies, such as FEE and the IIRC; and	✓ monthly	✓	✓	✓
	Prepare International Auditing and Assurance Update e-publication covering IAASB and other national auditing standards-setters' activities for AUASB meetings and for publishing on the AUASB website.	✓ at least quarterly	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
4. Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements	Actively engage with stakeholders:				
	Engage with Australian stakeholders, regulatory bodies, professional accounting bodies, practitioners, preparers, users and other stakeholders (including Australian Treasury, ASIC, APRA, ACNC, CER and ATO) to promote audit quality and consistency in the application of AUASB pronouncements:	✓ regularly	✓	✓	✓
	- engage directly with key stakeholders on a timely basis on topical issues;	✓	✓	✓	✓
	- conduct topic-specific roundtable meetings to gather feedback;	✓ on major proposals	✓	✓	✓
	- conduct surveys to identify the needs of stakeholders and other users of auditing and assurance services; and	✓	✓	✓	✓
	- conduct the annual AUASB Consultative Meeting with stakeholders to discuss significant projects and to obtain their input on what should be the AUASB's work plan priorities;	✓ 19 April 2016	✓ April 2017	✓ April 2018	✓ April 2019
	Conduct post-implementation reviews of all issued AUASB standards;	✓ ASAEs 3420 & 3450	✓	✓	✓
	Engage with practitioners, professional bodies and regulators to assist with consistent understanding, and implementation, of the principles underlying standards and the resultant work effort and evidence requirements; and	✓	✓	✓	✓
	Engage with the FRC through the AUASB Chairman's active involvement, including through membership of Audit Quality Committee;	✓ at least Quarterly	✓	✓	✓

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
4. Communicate and engage with stakeholders to promote audit quality and increase engagement in developing standards and promote consistency in the application of AUASB pronouncements (cont'd)	- Participate in public debate, conferences and seminars on topics relevant to global auditing and assurance standards and strategic audit and assurance issues; and - Contribute articles for relevant professional publications that highlight key principles of, or major changes to, the AUASB pronouncements.	√	√	√	√
		√	√	√	√
	Identify AUASB stakeholders and understand their needs and expectations:				
	Conduct stakeholder satisfaction survey and use feedback results to obtain benchmark for performance improvement;	√ develop	√ monitor & improve	√	√
	Create and maintain a key stakeholders contacts database; and	√ create	√ maintain & improve	√	√
	Increase media mentions, social media activity and level of participation at AUASB events.	√ create	√ monitor & grow		

Strategic Objectives	Strategic Initiative and KPI's	2015-16	2016-17	2017-18	2018-19
5. Harmonise Australian and New Zealand auditing and assurance standards	Harmonise, wherever possible, given the different regulatory environments, Australian and New Zealand Auditing and Assurance Standards through working actively with the NZAuASB:				
	- Engage with the NZAuASB Chairman, NZAuASB staff and relevant board members when drafting auditing and assurance standards that will be adopted jointly to understand if there are likely to be any harmonisation differences; and - Collate and reconcile any differences between Australian and New Zealand standards, and the reasons therefor: - prepare compelling reasons test documentation to explain all differences, including with any underlying IAASB standard(s).	✓ review board papers and provide feedback ✓ Service Performance Reporting project	✓ ✓	✓ ✓	✓ ✓

AUASB Technical Work Program for 2015-16

Agenda Item 10(d).3
AUASB Meeting 15 September 2015

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
1. Improve Audit Quality and confidence in assurance on external reporting by contributing to the development of and convergence with one set of robust international auditing standards and consistent application of AUASB pronouncements									
1.1 Contribute to scheduled IAASB meetings and annual NSS meeting. AUASB Chairman and Executive Director to participate in these meetings				IAASB meeting 21-25 Sep		IAASB meeting 7-11 Dec	IAASB meeting 14-18 Mar		IAASB – NSS meeting 16-17 June IAASB meeting 20-24 June
1.2 Participate in IAASB projects: • Innovation Working Group • Integrated Reporting Working Group • Revision of ISRS 4400 <i>Agreed Upon Procedures</i>			Provide AUASB with Working Group project updates	→	→	→	→	→	→
1.3 Provide comment on IAASB exposure draft and discussion papers			On going	→	→	→	→	→	→
1.4 Develop and revise AUASB Standards to conform with IAASB standards. Consider the implications of new/revised IAASB standards on AUASB standards, and undertake required revisions as necessary			On going	→	→	→	→	→	→

Updated 10 September 2015

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
IAASB projects and related Australian standards:									
a) Auditor Reporting		<i>IAASB has approved revisions to ISA 700 and consequential amendments to other auditing standards</i>	AUASB to consider comments on exposure and clear proposed Aust. Standards for preliminary approval	Refer ASA 720 revision conseq. changes to reporting standards to be considered post Aust. exposure approval	Provide update on Aust. auditor reporting changes	Final approval of and release by AUASB to new and revised auditor reporting standards in Australia	Communicate changes to stakeholders	→	→
(i) Consider revision of ASAs 210/230/260/540/570/700/701/705/706									
(ii) Consider revision of ASAs 800 & 805			Awaiting finalisation from IAASB	IAASB to consider proposed final standards for approval	AUASB to consider draft EDs of ASAs 800, 805 and 810	AUASB to release EDs of revised ASAs 800, 805 and 810	AUASB to approve final revised ASAs 800, 805 and 810	Communicate changes to stakeholders	→
b) Audit Quality		<i>Audit Quality – An International Framework</i>	Consider opportunities for promoting AQ Framework in Aust and undertake further stakeholder engagement	→	→	→	→	→	→
c) Auditing financial statement disclosures. Consider revision of ASAs 200,210, 240, 260, 300, 315, 320, 330, 450, 580, 700		<i>On 15 July 2015, IAASB released changes to ISAs relating to auditing disclosures</i>	AUASB Technical Group to commence drafting AUASB ED, incorporating all amendments	→	AUASB to approve ED at special teleconference tba	AUASB to consider ED comments and approve relevant changes to ASAs and consolidate with auditor reporting revisions to ASAs	Communicate changes to stakeholders	→	→
d) ISA 720 Auditor's responsibility for other information		<i>IAASB re-exposure of proposed revised ISA 720</i>		Consider comments on ED and clear final std and amend. for prelim approval	→	Consolidate changes with auditor reporting revisions and issue final standards	Communicate changes to stakeholders	→	→

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
e) NOCLAR Project		<i>Amendments to ISAs/ASAs as a result of the IESBA NOCLAR project</i>	Note impending release of IAASB ED (approved in June 2015). Draft submission to IAASB	Approve submission to IAASB and liaise with APESB	→	IAASB to consider ED comments	IAASB to finalise amendments to ISAs at March meeting	Draft Aust. ED to incorporate NOCLAR amendments	Consider ED comments and finalise changes to ASAs
f) Revisions to ISAs arising from post impl. review: - ISQC 1 and ISA 220 Quality Control - ISA 600 Group Audits - New IAASB guidance on: - Professional scepticism - Auditing Financial Institutions		<i>IAASB to develop combined discussion paper on these subject areas with a view to enhancing Audit Quality. Individual areas to then be considered</i>	Monitor IAASB WG progress	→	→	IAASB to approve and issue discussion paper at Dec IAASB meeting	AUASB to consider and approve submission on IAASB DP	Consider feedback from Mar IAASB meeting	Monitor IAASB progress and consider June IAASB meeting papers
g) Integrated reporting		<i>Provide update of IR WG progress and feedback from BLRF meetings</i>	→	→	→	→	Consider proposed IAASB DP	Provide AUASB comments on IAASB DP	Provide update of IR WG progress
h) Audit implications of XBRL/SBR			Maintain watching brief on any developments	→	→	→	→	→	→
2. Be recognised as the auditing and assurance standard-setting body in Australia to formulate and maintain Auditing and Assurance Standards and guidance pronouncements to address local issues									
2.1 Monitoring and implementation									
• Monitor implications of the Auditing Standards and seek ongoing stakeholder feedback			On going	→	→	→	→	→	→
• Participate in public debate, conferences, seminars on topics relevant to AUASB					CPA Oct Congress			CA ANZ May Business Forum	

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
2.2 Formulate and maintain other auditing and assurance standards									
Issue new and revised standards									
a) ASAE 3100 <i>Compliance Engagements</i>		<i>Revisions arising from reissuance of ASAE 3000</i>	Consider project update and draft ED	Consider further draft ED	→	Approve ED and issue for comment	Consider comments received on exposure and finalise ASAE	Release final ASAE in Mar	Communicate with key stakeholders
b) ASAE 3500 <i>Performance Engagements</i>		<i>Revisions arising from reissuance of ASAE 3000</i>	Consider project update and draft ED	Consider further draft ED	→	Approve ED and issue for comment	Consider comments received on exposure and finalise ASAE	Release final ASAE in Mar	Communicate with key stakeholders
c) ASAE on <i>Service Performance Information</i>		<i>New joint project with NZAuASB and liaison with AASB</i>	NZAuASB & AUASB to consider key matters for the development of a new standard	→	→	Consider draft ED	Approval of ED	Undertake roundtables and consider feedback	Consider proposed final standard
2.3 Formulate and maintain guidance pronouncements									
Issue new and revised guidance statements									
a) GS 003 Audit requirements of AFS Licensees				Consider final GS 003 for approval	Release GS and communicate with key stakeholders	Communicate with key stakeholders	→	→	→
b) GS 009 <i>Auditing Self-Managed Superannuation Funds</i>				Consider final GS 009 for approval	Release GS and communicate with key stakeholders	Communicate with key stakeholders	→	→	→
c) GS 010 <i>Responding to Questions at an Annual General Meeting</i>							Consider and approve project plan	Consider draft GS 010	Approve revised GS 010
d) Authorised deposit taking institutions GS 012 (APRA)			Monitor APRA developments	→	→	→	→	→	→

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
e) GS 013 Audit of Compliance Plans of Managed Investment Schemes		<i>Project on hold – awaiting revision of ASIC RG</i>	Monitor ASIC developments	→	→	→	→	→	→
f) GS 022 Grant Acquittals and Multi-Scope Engagements		<i>GS 022 was approved effective 30 June 2015 and released 2 July</i>	AUASB Technical Group & Comms Consultant to develop comprehensive stakeholder engagement and comms. strategy	Implement stakeholder engagement and comms. strategy	→	→	→	→	→
g) Guidance on Group Audits		<i>Deferred pending IAASB revision of ISA 600</i>	→	→	→	→	→	→	→
h) Audit implications of Data and Analytics		<i>IAASB to develop a DP in 2016</i>	Monitor IAASB project	→	→	→	→	→	IAASB to approve DP. AUASB to prepare submission once issued
i) AUASB Glossary							Consider and approve project plan	Consider 1 st draft	Approve revised Glossary

3. Undertake thought leadership and respond to emerging issues

3.1 Identify and respond to significant emerging auditing and assurance issues of public interest on a timely basis

- Promote Audit Quality - Identify emerging issues and determine appropriate action - Encourage and participate in determining policy issues and the development of any legislation and regulation arising from the international debate on audit quality and audit regulation			On going	→	→	→	→	→	→

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
- Respond to local and international developments in relation to the above points - Enhance the profile of the AUASB as a leading NSS - Consult with subject matter experts, as appropriate									
3.2 Monitor international developments on auditing and assurance									
Monitor the activities of:			On going	→	→	→	→	→	→
- other NSS incl. Canada, France, Germany, Netherlands, UK, US and South Africa. - IOSCO, PCAOB and IFIAR									
Prepare periodic AUASB <i>International Update</i>			AUASB International update	→	→	→	→	→	→
4. Communicate and engage with stakeholders to promote Audit Quality									
4.1 Actively engage with Australian regulatory bodies, professional accounting bodies, practitioners, preparers, users and other stakeholders									
Promote Audit Quality through liaison and working with regulatory bodies (including ASIC, APRA, ATO, and CER/Dept of Environment), professional accounting bodies, practitioners, Aust. Treasury, FRC and other govt depts and other organisations				APRA and ASIC qtlly meetings		APRA and ASIC qtlly meetings	APRA and ASIC qtlly meetings		APRA and ASIC qtlly meetings
The AUASB Chairman will continue active involvement in FRC activities, including membership on task forces on Audit Quality and Integrated Reporting				1 Sept videoconference		FRC Meeting 21 Nov	FRC Meeting 6 March		FRC Meeting 5 June

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
Annual Consultative Meeting with stakeholders to discuss significant projects and to obtain input on the AUASB's priorities over the next three-year period								2016 meeting to be held 5 April	Consider feedback from Consultative Meeting
5. Harmonise Australian and New Zealand auditing and assurance standards									
5.1 Harmonise Australian and New Zealand auditing and assurance standards and work actively with the New Zealand Auditing and Assurance Standards Board (NZAuASB)									
5.1 Work on: - conformity with international auditing standards and harmonisation between Australia and New Zealand. - jointly influence policy and international standard setting - work jointly on various projects (Internal Control Project)		<i>On going</i> <i>Attend NZAuASB meetings</i>	23 July	On going 2 Sept	→ 21 Oct	→ 9 Dec	→ 18 Feb (tbc)	→ 29 Apr (tbc)	→ 11 June (tbc)



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 10(d)
Meeting Date: 15 September 2015
Subject: AUASB Strategy and Corporate Plan 2015-2019 and updated AUASB Technical Work Program for year ending 30 June 2016
Date Prepared: 8 September 2015

☒ Action Required	☐ For Information Purposes Only

Agenda Item Objectives

To provide to the AUASB with:

1. a final AUASB Strategy and Corporate Plan for 2015-2019;
2. an updated Technical Work Program for year ending 30 June 2016 and;
3. a report back on AUASB Strategic Plan achievements and outcomes for 2014-15.

The AUASB Strategy 2015-2019 has been finalised and presented in a format similar to that of the AASB (refer 28 July meeting agenda Item 8(d).2), after initial consideration at the 9 June AUASB meeting and again subsequently on 28 July. This document has now been finalised and sent to the FRC. It has also been incorporated into the AUASB Corporate plan for 2015-16, which was provided to the responsible Ministers on 1 September 2015.

The AUASB Technical Work Program for the new financial year ending 30 June 2016 has been updated.

Finally, also attached for information, is a copy of the AUASB Strategic Plan outcomes for the year ended 30 June 2015, as recently advised to the FRC.

Material Presented

Agenda Item 10(d)	AUASB Board Meeting Summary Paper
Agenda Item 10(d).1	Final AUASB Strategy 2015-2019
Agenda Item 10(d).2	Final AUASB Corporate Plan 2015-2016
Agenda Item 10(d).3	Updated AUASB Technical Work Program for year ending 30 June 2016
Agenda Item 10(d).4	AUASB Strategic Plan Outcomes for the year ended 30 June 2015

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	AUASB Strategy 2015-19 and Corporate Plan 2015-2016	For noting	AUASB	15 September 2015	
2.	AUASB Technical Work Program for year ending 30 June 2016	For noting	AUASB	15 September 2015	
3	AUASB Strategic Plan Outcomes for the year ended 30 June 2015	For noting	AUASB	15 September 2015	



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **10(f)**
Meeting Date: 15 September 2015
Subject: Financial Reporting Framework Project
Date Prepared: 8 September 2015

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda Item Objectives

To inform the AUASB of the key points relating to the Australian Financial Reporting Framework project. The FRC initiative is to bring together the various interested parties whose common goal is to clarify and simplify the financial reporting framework.

Background

The FRC initiated a meeting of interested parties on 19 August 2015. The meeting was chaired by an FRC representative and was attended by representatives from the FRC, Treasury, AUASB, AASB, ASIC and the three professional bodies.

Matters to Consider

Part A – General

For information only:

- (a) Agenda Item 10(f).1 summarises the background information, purpose of the meeting and matters agreed to.
- (b) Agenda Item 10(f).2 is a draft paper, prepared by AASB staff, on the key points for the financial reporting framework project.

Part B – NZAuASB

N/A

Part C – “Compelling Reasons” Assessment

N/A

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

The proposed changes conform with IAASB modification guidelines for NSS? Y ☐ N ☐

Material Presented

Agenda Item 10(f)	AUASB Board Meeting Summary Paper
Agenda Item 10(f).1	Financial Reporting Framework Meeting Summary paper [Confidential]
Agenda Item 10(f).2	Draft Key Points - financial reporting framework project [Confidential]



AUASB Technical Work Program for 2015-16

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
1. Improve Audit Quality and confidence in assurance on external reporting by contributing to the development of and convergence with one set of robust international auditing standards and consistent application of AUASB pronouncements									
1.1 Contribute to scheduled IAASB meetings and annual NSS meeting. AUASB Chairman and Executive Director to participate in these meetings				IAASB meeting 21-25 Sep		IAASB meeting 7-11 Dec	IAASB meeting 14-18 Mar		IAASB – NSS meeting 16-17 June IAASB meeting 20-24 June
1.2 Participate in IAASB projects: • Innovation Working Group • Integrated Reporting Working Group • Revision of ISRS 4400 <i>Agreed Upon Procedures</i>			Provide AUASB with Working Group project updates	→	→	→	→	→	→
1.3 Provide comment on IAASB exposure draft and discussion papers			On going	→	→	→	→	→	→
1.4 Develop and revise AUASB Standards to conform with IAASB standards. Consider the implications of new/revised IAASB standards on AUASB standards, and undertake required revisions as necessary			On going	→	→	→	→	→	→

Updated 10 September 2015

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Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
IAASB projects and related Australian standards:									
a) Auditor Reporting		<i>IAASB has approved revisions to ISA 700 and consequential amendments to other auditing standards</i>	AUASB to consider comments on exposure and clear proposed Aust. Standards for preliminary approval	Refer ASA 720 revision conseq. changes to reporting standards to be considered post Aust. exposure approval	Provide update on Aust. auditor reporting changes	Final approval of and release by AUASB to new and revised auditor reporting standards in Australia	Communicate changes to stakeholders	→	→
(i) Consider revision of ASAs 210/230/260/540/570/700/701/705/706									
(ii) Consider revision of ASAs 800 & 805			Awaiting finalisation from IAASB	IAASB to consider proposed final standards for approval	AUASB to consider draft EDs of ASAs 800, 805 and 810	AUASB to release EDs of revised ASAs 800, 805 and 810	AUASB to approve final revised ASAs 800, 805 and 810	Communicate changes to stakeholders	→
b) Audit Quality		<i>Audit Quality – An International Framework</i>	Consider opportunities for promoting AQ Framework in Aust and undertake further stakeholder engagement	→	→	→	→	→	→
c) Auditing financial statement disclosures. Consider revision of ASAs 200,210, 240, 260, 300, 315, 320, 330, 450, 580, 700		<i>On 15 July 2015, IAASB released changes to ISAs relating to auditing disclosures</i>	AUASB Technical Group to commence drafting AUASB ED, incorporating all amendments	→	AUASB to approve ED at special teleconference tba	AUASB to consider ED comments and approve relevant changes to ASAs and consolidate with auditor reporting revisions to ASAs	Communicate changes to stakeholders	→	→
d) ISA 720 Auditor's responsibility for other information		<i>IAASB re-exposure of proposed revised ISA 720</i>		Consider comments on ED and clear final std and amend. for prelim approval	→	Consolidate changes with auditor reporting revisions and issue final standards	Communicate changes to stakeholders	→	→

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
e) NOCLAR Project		<i>Amendments to ISAs/ASAs as a result of the IESBA NOCLAR project</i>	Note impending release of IAASB ED (approved in June 2015). Draft submission to IAASB	Approve submission to IAASB and liaise with APESB	→	IAASB to consider ED comments	IAASB to finalise amendments to ISAs at March meeting	Draft Aust. ED to incorporate NOCLAR amendments	Consider ED comments and finalise changes to ASAs
f) Revisions to ISAs arising from post impl. review: - ISQC 1 and ISA 220 Quality Control - ISA 600 Group Audits - New IAASB guidance on: - Professional scepticism - Auditing Financial Institutions		<i>IAASB to develop combined discussion paper on these subject areas with a view to enhancing Audit Quality. Individual areas to then be considered</i>	Monitor IAASB WG progress	→	→	IAASB to approve and issue discussion paper at Dec IAASB meeting	AUASB to consider and approve submission on IAASB DP	Consider feedback from Mar IAASB meeting	Monitor IAASB progress and consider June IAASB meeting papers
g) Integrated reporting		<i>Provide update of IR WG progress and feedback from BLRF meetings</i>	→	→	→	→	Consider proposed IAASB DP	Provide AUASB comments on IAASB DP	Provide update of IR WG progress
h) Audit implications of XBRL/SBR			Maintain watching brief on any developments	→	→	→	→	→	→
2. Be recognised as the auditing and assurance standard-setting body in Australia to formulate and maintain Auditing and Assurance Standards and guidance pronouncements to address local issues									
2.1 Monitoring and implementation									
• Monitor implications of the Auditing Standards and seek ongoing stakeholder feedback			On going	→	→	→	→	→	→
• Participate in public debate, conferences, seminars on topics relevant to AUASB					CPA Oct Congress			CA ANZ May Business Forum	

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
2.2 Formulate and maintain other auditing and assurance standards									
Issue new and revised standards									
a) ASAE 3100 <i>Compliance Engagements</i>		<i>Revisions arising from reissuance of ASAE 3000</i>	Consider project update and draft ED	Consider further draft ED	→	Approve ED and issue for comment	Consider comments received on exposure and finalise ASAE	Release final ASAE in Mar	Communicate with key stakeholders
b) ASAE 3500 <i>Performance Engagements</i>		<i>Revisions arising from reissuance of ASAE 3000</i>	Consider project update and draft ED	Consider further draft ED	→	Approve ED and issue for comment	Consider comments received on exposure and finalise ASAE	Release final ASAE in Mar	Communicate with key stakeholders
c) ASAE on <i>Service Performance Information</i>		<i>New joint project with NZAuASB and liaison with AASB</i>	NZAuASB & AUASB to consider key matters for the development of a new standard	→	→	Consider draft ED	Approval of ED	Undertake roundtables and consider feedback	Consider proposed final standard
2.3 Formulate and maintain guidance pronouncements									
Issue new and revised guidance statements									
a) GS 003 Audit requirements of AFS Licensees				Consider final GS 003 for approval	Release GS and communicate with key stakeholders	Communicate with key stakeholders	→	→	→
b) GS 009 <i>Auditing Self-Managed Superannuation Funds</i>				Consider final GS 009 for approval	Release GS and communicate with key stakeholders	Communicate with key stakeholders	→	→	→
c) GS 010 <i>Responding to Questions at an Annual General Meeting</i>							Consider and approve project plan	Consider draft GS 010	Approve revised GS 010
d) Authorised deposit taking institutions GS 012 (APRA)			Monitor APRA developments	→	→	→	→	→	→

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
e) GS 013 Audit of Compliance Plans of Managed Investment Schemes		<i>Project on hold – awaiting revision of ASIC RG</i>	Monitor ASIC developments	→	→	→	→	→	→
f) GS 022 Grant Acquittals and Multi-Scope Engagements		<i>GS 022 was approved effective 30 June 2015 and released 2 July</i>	AUASB Technical Group & Comms Consultant to develop comprehensive stakeholder engagement and comms. strategy	Implement stakeholder engagement and comms. strategy	→	→	→	→	→
g) Guidance on Group Audits		<i>Deferred pending IAASB revision of ISA 600</i>	→	→	→	→	→	→	→
h) Audit implications of Data and Analytics		<i>IAASB to develop a DP in 2016</i>	Monitor IAASB project	→	→	→	→	→	IAASB to approve DP. AUASB to prepare submission once issued
i) AUASB Glossary							Consider and approve project plan	Consider 1 st draft	Approve revised Glossary

3. Undertake thought leadership and respond to emerging issues

3.1 Identify and respond to significant emerging auditing and assurance issues of public interest on a timely basis

- Promote Audit Quality - Identify emerging issues and determine appropriate action - Encourage and participate in determining policy issues and the development of any legislation and regulation arising from the international debate on audit quality and audit regulation			On going	→	→	→	→	→	→

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
			28 July	15 Sept	16 Nov (Schilder visit)	1 Dec	22 Feb	4 Apr	14 June
- Respond to local and international developments in relation to the above points - Enhance the profile of the AUASB as a leading NSS - Consult with subject matter experts, as appropriate									
3.2 Monitor international developments on auditing and assurance									
Monitor the activities of: - other NSS incl. Canada, France, Germany, Netherlands, UK, US and South Africa. - IOSCO, PCAOB and IFIAR			On going	→	→	→	→	→	→
Prepare periodic AUASB <i>International Update</i>			AUASB International update	→	→	→	→	→	→
4. Communicate and engage with stakeholders to promote Audit Quality									
4.1 Actively engage with Australian regulatory bodies, professional accounting bodies, practitioners, preparers, users and other stakeholders									
Promote Audit Quality through liaison and working with regulatory bodies (including ASIC, APRA, ATO, and CER/Dept of Environment), professional accounting bodies, practitioners, Aust. Treasury, FRC and other govt depts and other organisations				APRA and ASIC qtly meetings		APRA and ASIC qtly meetings	APRA and ASIC qtly meetings		APRA and ASIC qtly meetings
The AUASB Chairman will continue active involvement in FRC activities, including membership on task forces on Audit Quality and Integrated Reporting				1 Sept videoconference		FRC Meeting 21 Nov	FRC Meeting 6 March		FRC Meeting 5 June

Project Strategies/ Initiatives		AUASB Meeting							
		2015					2016		
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Annual Consultative Meeting with stakeholders to discuss significant projects and to obtain input on the AUASB's priorities over the next three-year period								2016 meeting to be held 5 April	Consider feedback from Consultative Meeting
5. Harmonise Australian and New Zealand auditing and assurance standards									
5.1 Harmonise Australian and New Zealand auditing and assurance standards and work actively with the New Zealand Auditing and Assurance Standards Board (NZAuASB)									
5.1 Work on: - conformity with international auditing standards and harmonisation between Australia and New Zealand. - jointly influence policy and international standard setting - work jointly on various projects (Internal Control Project)		<i>On going</i> <i>Attend NZAuASB meetings</i>	23 July	On going 2 Sept	→ 21 Oct	→ 9 Dec	→ 18 Feb (tbc)	→ 29 Apr (tbc)	→ 11 June (tbc)