

**Appendix 4**

(Ref: Para. 78)

**ILLUSTRATIVE FINANCIAL AUDIT PROCEDURES FOR A SELF-MANAGED SUPERANNUATION FUND**

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

*The procedures detailed are designed to address the financial audit of a SMSF; however, in some instances, where compliance matters are integral to the financial audit, these may also be included. For procedures in conducting a compliance engagement, a compliance checklist may be used. Standardised checklists are available from a number of professional organisations. Auditors verify the completeness of any compliance checklist they use, to ensure it covers all relevant provisions<sup>229</sup>.*

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

<sup>229</sup> Auditor guidance and information for use in conducting the compliance engagement, including the ATO’s electronic superannuation audit tool (eSAT), is available on the ATO website at <https://www.ato.gov.au/Super/Self-managed-super-funds/SMSF-auditors>.

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

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

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

Ref	Audit Procedure
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.
<b>E</b>	<b>CASH</b>
E.1	Confirm the fund's bank accounts are in the name of the trustee on behalf of the fund, by reviewing bank statements for each bank account.
E.2	Review statements for the year, examining accounts for large or unusual transactions and seek explanation for those transactions.
E.3	Test large and unusual payments and receipts to ensure these are <i>bona fide</i> and correctly recorded and authorised.
E.4	Review bank reconciliation at year end: <ul style="list-style-type: none"> <li>Follow up and investigate large, unusual or recurring reconciling items.</li> <li>Follow up uncleared deposits and unpresented cheques ensuring correct cut off.</li> <li>Trace unpresented cheques to bank statement subsequent to year end.</li> </ul>
E.5	Where bank accounts are significant to the audit you should gain sufficient appropriate audit evidence, that may include: <ul style="list-style-type: none"> <li>Confirming the bank balance by way of a bank confirmation.</li> <li>Obtaining a third party authority in order to liaise with the financial institution. Investigate whether online access is available via the third party authority. Internet banking includes a third party access permission whereby an individual login is issued to the nominated user.</li> <li>Sighting original bank statements and subsequent redemptions for term deposits.</li> <li>Seeking explanations for any material differences.</li> <li>Checking for any debit balances, undisclosed liabilities and security for borrowings.</li> <li>Reviewing substantial entries and tracing back to source (contributions, asset transactions, benefit payments).</li> </ul>
E.6	Where the fund had undeposited cheques recorded as 'cash on hand' at period end, confirm these amounts were banked after period end. Obtain documentary evidence (such as trustee minutes and subsequent bank statements to evidence the cash was received by the SMSF prior to, and was deposited within a few days of, period end. Alternatively, evidence the source of the cash as a method of reconciling the transaction's validity.
<b>F</b>	<b>INVESTMENTS</b>
F.1	<u>General</u> An auditor should use professional judgement to determine what evidence is appropriate, and the size of the sample to be verified, for each investment.
F.2	<u>Foreign Currency Transactions</u> Check to ensure that all investments are recorded in Australian dollars and that if foreign currency transactions occur they are converted at the appropriate currency rates and accounted for correctly.
F.3	<u>Investor Directed Portfolio Services (IDPS) (WRAP accounts)</u> <ul style="list-style-type: none"> <li>Obtain the relevant auditor's report issued in accordance with ASAE 3402.</li> <li>Confirm investments held by a custodian are identified as belonging to the SMSF. Conduct sample testing of the IDPS operator's asset transactions. Other tests could include obtaining correspondence between the SMSF trustee and the IDPS operator regarding the transactions such as a Statement of Advice.</li> <li>Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR, including the requirement for assets to be valued at market value (SISR regulation 8.02B).</li> <li>Check that there is no double counting of assets such as the SMSF bank account or distributions receivable.</li> <li>Obtain where data has been transmitted via the use of data feeds, an ASAE 3402 type 2 Assurance report in respect of the process and controls operating effectiveness.</li> </ul>
F.4	<u>Fixed Interest Securities (including term deposits)</u>

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

Ref	Audit Procedure
	<ul style="list-style-type: none"> <li>• Complete the following for each fixed interest security, including debentures and bonds, held by the SMSF at the end of the period:               <ul style="list-style-type: none"> <li>- Sight original certificates or obtain a bank confirmation, to confirm correct ownership, date of issue of the certificates and date of maturity of the investment.</li> <li>- Agree the value of the fixed interest securities at period end.</li> <li>- For bonds, either confirm the net market value at period end with the originator of the security, or with published market prices.</li> <li>- For unlisted non-transferable debentures, agree the net market value with the face value.</li> </ul> </li> <li>• Confirm that the investments are in the name of the trustee and that the documentation clearly identifies that the investment is an asset of the Fund.</li> <li>• Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes, and is in accordance with ATO guidelines and the SISR, including the requirement for assets to be valued at market value (SISR regulation 8.02B).</li> </ul>
F.5	<p><u>Property</u></p> <ul style="list-style-type: none"> <li>• Complete property searches for all real estate investments owned by the SMSF.</li> <li>• Check that each property is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF. This may involve viewing the contract of sale when the property was first acquired, a declaration of trust or an acknowledgement of trust from the registered owner.</li> <li>• Check that there are no registered encumbrances, unless they are in relation to limited recourse borrowing arrangements permitted by sections 67A and 67B of the SISA. If there are limited recourse borrowing arrangements, refer to F10 of this checklist of illustrative audit procedures.</li> <li>• Review the accounting policies to determine how the trustee has valued each property. Fund assets including property investments are required by Regulation 8.02B of the SISR to be carried at market value determined in line with ATO <i>Valuation guidelines for self-managed superannuation funds</i>.</li> <li>• Review the method used to value the property, including if the trustees have relied on an independent market appraisal or valuation, and obtain a copy of the valuation and confirm that:               <ul style="list-style-type: none"> <li>- The value is correctly reflected in the financial report.</li> <li>- The valuation/appraisal refers to the correct property.</li> <li>- The valuation was based on reasonable assumptions and is current.</li> <li>- The valuation does not take into account redemption costs, other than any GST payable on sale which should be removed from the value.</li> <li>- If the property has been subsequently sold, that the sale price does not differ significantly from the valuation/appraisal.</li> <li>- the method used to value the property is consistent with that disclosed in the accounting policy notes and is in line with ATO requirements and the SISR, including the requirement for assets to be valued at market value (SISR regulation 8.02B).</li> <li>- Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith, using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.</li> </ul> </li> <li>• Where the property includes 'buildings and other fixtures' verify existence of adequate insurance and, where these are being depreciated, ensure that the depreciation adjustments are correctly and appropriately reflected as part of the market value of the investment.</li> </ul>
F.6	<p><u>Listed Securities</u></p> <p>Review the number of listed securities including shares, units, options, warrants and futures held by the SMSF at the end of the period. If the SMSF has units in unit trusts, obtain a listing of these and identify any unit trusts that are listed on the Australian Stock Exchange, those that are widely held trusts and those that are closely held trusts.</p> <ul style="list-style-type: none"> <li>• Check that each listed security is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties as required by regulation 4.09(A)(2) of the SISR.</li> <li>• Agree the number of securities held at period end to the share registry or other appropriate sources.</li> <li>• Confirm the closing market price of the securities at the period end against an independent source.</li> <li>• Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR, including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).</li> <li>• If the SMSF invested or redeemed listed securities during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.</li> </ul>

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

Ref	Audit Procedure
F.7	<p><u>Widely Held Unlisted Unit Trusts and Managed Funds</u></p> <p>These are arm's length, professionally managed trusts that provide regular reports on unit holdings, distributions and unit prices.</p> <ul style="list-style-type: none"> <li>• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: <ul style="list-style-type: none"> <li>- The number of securities held at period end.</li> <li>- That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF, and is held separate from the assets of the trustee, employers and other related parties as required by regulation 4.09(A)(2) of the SISR.</li> <li>- The method used to determine the market value of the units at the period end is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR, including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).</li> <li>- Check if the units are valued cum or ex-distribution and that this is correctly and consistently calculated and reported.</li> </ul> </li> <li>• If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.</li> </ul>
F.8	<p><u>Unlisted Closely Held Unit Trusts</u></p> <p>These can be related trusts that may require additional audit procedures to confirm ownership, value and compliance with the SISR and SISA.</p> <ul style="list-style-type: none"> <li>• Sight the original unit certificates, a confirmation from the unit trust or similar documentation and agree: <ul style="list-style-type: none"> <li>- The number of units held at period end.</li> <li>- That each investment is owned by the trustee and is correctly and appropriately recorded as an investment of the SMSF and is held separate from the assets of the trustee, employers and other related parties</li> </ul> </li> <li>• Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value, and test the value by: <ul style="list-style-type: none"> <li>- Obtaining documentary evidence to support the valuation.</li> <li>- Making enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history, if any, pre-emptive rights or other restrictions that may apply to the units, and any other factors that could impact the value of the investment.</li> <li>- Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR, including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).</li> <li>- Where the trustee has undertaken the valuation, assess whether the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines.</li> </ul> </li> </ul> <p>If the SMSF invested or redeemed units during the period, trace transactions to and/or from the SMSF to confirm that they have been dealt with in an appropriate and timely manner.</p>
F.9	<p><u>Pooled Superannuation Trusts and Life Insurance Policies</u></p> <ul style="list-style-type: none"> <li>• Sight original statements issued by the product provider, or obtain a confirmation directly from the product provider at period end.</li> <li>• Confirm that the investment is in the correct name.</li> <li>• Confirm the number of units and value of the investment at period end.</li> <li>• Confirm that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in accordance with ATO guidelines and the SISR, including the requirement for assets to be valued at marked value (SISR regulation 8.02B).</li> </ul>

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

Ref	Audit Procedure
F.10	<p><u>Assets subject to Limited Recourse Borrowing/ Arrangements</u></p> <ul style="list-style-type: none"> <li>• If the asset is subject to a limited recourse borrowing arrangement, determine how the investment has been valued (refer above) and complete the following audit procedures: <ul style="list-style-type: none"> <li>- Confirm the borrowing has either been used to acquire a single asset or, if the borrowing has been used to acquire a collection of assets, confirm each asset in the collection has an identical market value and that each asset in the collection is identical.</li> <li>- Confirm that the asset is held in trust for the SMSF</li> <li>- Confirm the deposit for the acquisition was paid from the SMSF cash balance.</li> <li>- Confirm the borrowing has only been used to maintain and repair the asset (not improve the asset) or applied to refinance the borrowing.</li> <li>- If the asset was replaced, confirm the following: <ul style="list-style-type: none"> <li>○ A share or collection of shares replaced for an identical share or collection of shares that has an identical market value; or</li> <li>○ A unit or collection of units replaced for an identical unit or collection of units that has an identical market value; or</li> <li>○ Is as a result of a corporate action</li> </ul> </li> <li>- Confirm that the SMSF has an option to acquire the legal ownership of the asset on payment of the final instalment.</li> <li>- Confirm that the lender's rights are limited in recourse against the fund trustee, to that asset.</li> <li>- Review an original statement or confirmation letter from the lender and confirm the amount of the debt, amount owing at balance date, interest charged during year, amount of borrowing costs incurred in the period and the value of any prepaid expense at the end of the period and that these have been correctly reflected in the financial report.</li> <li>- For non-bank loan arrangements, review the loan agreement and check whether the terms are in accordance with the 'safe-harbour' guidelines detailed in ATO Practical Compliance Guidelines PCG 2016/5 <i>Income tax – arm's-length terms for limited recourse borrowing arrangements established by self-managed superannuation funds</i>, including annual interest rate updates published by the ATO, and that the terms have been honoured. The safe-harbour terms provide a standard to demonstrate that the arrangement is at 'arm's length' and thereby not subject to the non-arm's length income (NALI) level of tax.</li> </ul> </li> <li>• Consider if any additional disclosures are required so that the users of the financial report understand the limited recourse borrowing arrangement. Review the clerical and factual accuracy of any additional disclosures to ensure it appropriately reflects the position of the arrangement.</li> </ul>

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

Ref	Audit Procedure
<b>F.11</b>	<p><u>Collectables and Personal Use Assets</u></p> <ul style="list-style-type: none"> <li>• If the asset is a type that does not have any form of title, obtain evidence to confirm existence and ownership including: <ul style="list-style-type: none"> <li>- Minutes or resolution relating to the acquisition of the asset.</li> <li>- Invoice and evidence of payment from the SMSF for the purchase of the asset.</li> <li>- Sighting the asset.</li> </ul> </li> <li>• For all collectables and personal use assets, obtain evidence of: <ul style="list-style-type: none"> <li>- Insurance policy or premium payment for insurance of the asset.</li> <li>- Lease documents, if leased to another party.</li> <li>- Storage arrangements.</li> <li>- Review the personal property securities register to ensure the asset(s) isn't encumbered. Retain on audit file.</li> </ul> </li> <li>• Identify which of the valuation methods outlined in the ATO guidelines the trustee has used (market based, income based, asset based, cost based and probability based) to determine market value, and test the value by: <ul style="list-style-type: none"> <li>- Obtaining documentary evidence to support the valuation.</li> <li>- Making enquiries of the trustee or manager of the trust to determine the activities of the trust, the net tangible position of the trust, liquidity of the units, recent sales history (if any), pre-emptive rights or other restrictions that may apply to the units, and any other factors that could impact the value of the investment.</li> <li>- Verifying that the method used to value the investments is consistent with that disclosed in the accounting policy notes and is in line with ATO guidelines and the SISR, including the requirement for assets to be valued at market value (regulation 8.02B of the SISR).</li> <li>- Assessing whether the valuation process used is fair and reasonable, was undertaken in good faith using objective and reliable data, is capable of explanation to a third party and complies with the ATO guidelines (where the trustee has undertaken the valuation).</li> </ul> </li> </ul>
<b>G</b>	<b>RECEIVABLES AND PREPAYMENTS</b>
<b>G.1</b>	If the SMSF uses accrual accounting, review each asset and determine if the SMSF was entitled to receive income for the year, and if this had been received or accrued at balance date.
<b>G.2</b>	Obtain details of other receivables and ensure that they are correctly accounted for.
<b>G.3</b>	Verify that the receivable is current and has been received by the SMSF subsequent to period end, or that it will be received by the SMSF.
<b>G.4</b>	If the amount is receivable from a related party, check that the disclosures are appropriate, and review this further as part of your compliance engagement.
<b>G.5</b>	If the fund pays insurance or other expenses, ensure that these have been applied in the period to which they relate, and prepaid items have been recorded in accordance with the accounting policies.
<b>G.6</b>	If the accounts are prepared on a cash basis, ensure a reconciliation is on file to validate the actual distributions received compared to those recorded on the annual investor statement.
<b>H</b>	<b>LIABILITIES</b>
<b>H.1</b>	Review the value at which liabilities have been disclosed in the financial report and vouch to supporting documentation. Review the documentation and assess whether the amount and nature of the liabilities appears reasonable.
<b>H.2</b>	Vouch payment of liabilities, accruals and benefits payable to payments subsequent to year end.
<b>H.3</b>	Review ageing of liabilities/payables and comment on any delay in payment.
<b>H.4</b>	Vouch prior year payables and accruals to payments during the year.
<b>H.5</b>	Test for unrecorded liabilities by reviewing client documentation and subsequent payments.
<b>H.6</b>	Review prior year accounts to identify expenses that have been paid for in previous years but not paid/accrued for this year.
<b>H.7</b>	If the fund has a limited recourse borrowing arrangement, ensure that the liability is accurately and appropriately recorded in accordance with the arrangement (refer suggested procedures at F10 above).
<b>I</b>	<b>MEMBER'S ENTITLEMENTS / ACCRUED BENEFITS</b>

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

Ref	Audit Procedure
<b>I.1</b>	<ul style="list-style-type: none"> <li>Obtain a listing of all members' account balances and check that the total agrees with accrued benefits in the financial report.</li> <li>Review the allocation of revenue, expenses, income tax, excess contributions tax and other items to members to ensure that they have been correctly apportioned.</li> <li>Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.</li> </ul>
<b>J</b>	<b>RESERVES –</b>
<b>J.1</b>	<p>Reserves established prior to 1 July 2017 are permitted, in accordance with section 115 of the SISA and the fund's trust Deed. However, the management of these reserves must take into account the ATO's views SMSF* Regulator's Bulletin SMSFRB 2018/1.</p> <p>*Review SMSFRB 2018/1 – ATO's view on SMSFs and reserves</p> <p>The range of reserves permissible by a SMSF is limited and the Regulator Bulletin highlights the boundaries. Reserves established since 1 July 2017 require particular scrutiny in light of the Regulator Bulletin. The particular focus is where reserves are utilised to circumvent the reforms introduced from July 2017 that apply restrictions to the level of tax concessions available to superannuation:</p> <ul style="list-style-type: none"> <li>TSB manipulation in order to make NCCs;</li> <li>Reduce member balance to less than \$500k in order to make 'catch-up contributions'; and</li> </ul> <p>Use of reserves to reduce the member balance in respect of TBA reporting.</p>
<b>J.2</b>	Review the SMSF's documentation, including the fund's governing rules and trustee minutes, to ensure that the reserve is permitted and recorded in accordance with trustee policy.
<b>J.3</b>	Review the movements in the reserve during the period, to ensure clerically accurate and in accordance with the trustee policy.
<b>J.4</b>	Ensure that the disclosures in the financial report are appropriate and consistent with the members' entitlements.
<b>J.5</b>	Ensure any allocation from reserves is in accordance with the trust deed, and s115 SISA 1993, subsection 292-25(3) ITAA 1997 and regulation 292-25.01 ITAR 1997 (concessional contributions). The allocation can have implications for the member, if in excess of their concessional contribution cap.
<b>K</b>	<b>INVESTMENT AND OTHER REVENUE</b>
<b>K.1</b>	<p><u>Analytical Review Procedures</u></p> <ul style="list-style-type: none"> <li>Calculate the SMSF's investment return as a percentage based on the net income as a proportion of average assets held by the SMSF over the period.</li> <li>Compare this to the prior year as well as average market performance for the period of the audit and confirm that the return is reasonable and not under or overstated.</li> </ul>
<b>K.2</b>	<p><u>Interest Income</u></p> <ul style="list-style-type: none"> <li>Obtain a listing of interest income (if material) and ensure that this is consistent with the investments and what should have been received.</li> <li>For bank interest conduct analytical procedures.</li> </ul>
<b>K.3</b>	<p><u>Changes in Market Value</u></p> <ul style="list-style-type: none"> <li>Conduct analytical review procedures.</li> <li>Test the changes in market value calculations, including realised changes in market value, to ensure that they are correct.</li> <li>Reconcile to investments, for substantive audits.</li> </ul>
<b>K.4</b>	<p><u>Dividends</u></p> <ul style="list-style-type: none"> <li>Vouch dividends received to dividend slips, published dividend rates or registry details. Generally, two dividends are paid each year. Vouch these as an initial test.</li> <li>Confirm the accounting treatment of franking credits (either on a net or gross basis) and ascertain accounting treatment is consistent with the details disclosed in the accounting policy notes.</li> </ul>
<b>K.5</b>	<p><u>Trust Distributions</u></p> <ul style="list-style-type: none"> <li>Vouch distributions received and receivable to distribution advices, ensuring that the discounted capital gains and other income has been correctly classified for tax purposes. Some tax statements issued apply a 50 per cent discount to capital gains – check the percentage applied is applicable to SMSFs.</li> </ul>



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

Ref	Audit Procedure
K.6	<p><u>Rental Income</u></p> <ul style="list-style-type: none"> <li>• Conduct analytical review procedures against rental agreement and period of tenancy.</li> <li>• Vouch rental income against agent's statements or other records, as appropriate.</li> <li>• Review the disclosure of rental expenses in relation to the disclosure and distribution of net investment revenue to ensure it meets the requirements of the governing rules, the needs of members and the requirements of the SISR.</li> <li>• Check any rent reviews in the lease agreements during the period have been correctly applied.</li> <li>• Audit files should include a copy of the lease agreement and be carried forward annually until the term of the lease expires.</li> </ul>
K.7	<p><u>Other Income</u></p> <ul style="list-style-type: none"> <li>• If the SMSF receives other forms of income, ensure that these are correctly calculated, earned and disclosed.</li> </ul>
K.8	<p><u>Non-arm's length income (NALI)</u></p> <ul style="list-style-type: none"> <li>• Review transactions and investment acquisitions for possible NALI. NALI can also be invoked from non-arm's length expenses (NALE). Unreported NALI could have a significant impact on the tax calculation.</li> </ul>
<b>L</b>	<b>CONTRIBUTIONS AND TRANSFERS IN</b>
L.1	<p><u>Concessional contributions</u></p> <ul style="list-style-type: none"> <li>• Review the amounts, frequency and pattern of contributions and, if you suspect contributions are being diverted to the fund, seek confirmation of the contribution directly from the employer. All employers are required to report superannuation contributions via the ATO's single touch payroll (STP) system.</li> <li>• Where the contributions are from a related employer, ensure you verify the contributions via the STP process. Small employers (less than 19 employees) with 'closely held employees' are exempt from the use of STP until 1 July 2020 for the closely held payees only. If STP hasn't been enabled, manual verification is required.</li> <li>• Test that contributions have been allocated to the member for whom they were remitted.</li> <li>• For concessional contributions made by the member, obtain a copy of the form or notice prepared in accordance with the requirements of section 290-170 of the ITAA (1997), and confirm the details are consistent with the accounting treatment.</li> <li>• Review the receipt of 'catch-up contributions' to ensure the qualifying conditions were met for the fund to receive the contribution. The 2020 financial year is the first year of operation for the carry forward of the unused concessional contribution cap. Unused contributions can be carried forward but will expire after 5 years. The ability to make a catch-up concessional contribution applies only where a TSB at the start of the income year is less than \$500,000. Audit files could include documentation verifying the members qualification to utilise the catch-up opportunity.</li> <li>• For members &gt; 65, verify the substantiation that the work test has been met and the contribution was permitted.</li> <li>• Ensure only mandated contributions received for members aged &gt;75.</li> <li>• Ensure no-TFN contributions were received.</li> </ul>
L.2	Where co-contributions have been received, test that they have been allocated to the member for whom they were remitted.
L.3	<ul style="list-style-type: none"> <li>• If transfers in have been received, obtain the roll-over documentation and ensure that the transferee is a complying superannuation fund and correctly recorded as taxed or untaxed.</li> </ul>
L.4	Verify and trace contributions to the bank statements with additional testing at year end for correct cut-off.
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.
<b>M</b>	<b>EXPENSES</b>
M.1	Perform an analytical review procedures of expenses and assess for reasonableness against your knowledge of the SMSF and in comparison to the prior year's expenditure.
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.

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

Ref	Audit Procedure
<b>N</b>	<b>LUMP SUMS AND PENSIONS PAID</b>
<b>N.1</b>	<ul style="list-style-type: none"> <li>• Obtain a listing of all benefits paid and reconcile benefits paid to the prior year members' statement, adjusted for current period transactions.</li> <li>• For each benefit paid, review documentation including minutes or other documents confirming the commencement of a pension, correspondence to the members and rollover institutions and ensure that the benefit was duly authorised.</li> <li>• Ensure audit workpapers include evidence of the validity of benefit payments to members.</li> <li>• Confirm that each benefit was paid in accordance with the terms of the fund's governing rules.</li> <li>• For death benefits, confirm if the benefit was paid in accordance with the fund's governing rules and, if applicable, a binding death benefit nomination.</li> <li>• For a total and permanent disability benefit commenced in the year under audit, sight the medical certification regarding the inability of the member to work again.</li> <li>• For a total and temporary permanent disability benefit commenced in the year under audit, sight the medical certification regarding the temporary inability of the member to work.</li> <li>• Ensure that pensions paid are within the minimum and maximum (if a transition to retirement pension) thresholds and that pensions are paid at least once annually, and that a series of payments have been paid over the life of the pension account.</li> <li>• Investigate liabilities at year end to ensure that pensions have been paid, and not just accrued.</li> </ul>
<b>O</b>	<b>TAX</b>
<b>O.1</b>	<p>Review tax work papers to ensure that the income tax is correctly calculated and disclosed in accordance with the accounting policies, including:</p> <ul style="list-style-type: none"> <li>• Member contributions have been treated correctly as non-assessable unless the SMSF received a notice in accordance with section 290-170 of the ITAA 1997 stating that the member contribution is assessable.</li> <li>• Exempt Current Pension Income (ECPI) from assets used to pay current pensions is treated as non-assessable and an actuarial certificate has been obtained to confirm this if: the fund has both accumulation and unsegregated pension assets or, is a SMSF with 'disregarded small fund assets'</li> <li>• ECPI has been correctly applied to income but not contributions.</li> <li>• If the SMSF derives ECPI, check that expenses have been apportioned between deductible and non-deductible expenses in accordance with Tax Ruling TR 93/17 and section 8-1 of the ITAA 1997. Cash bonuses (not rebates) received on life insurance policies are not included as taxable income.</li> <li>• Franking credits from dividends are correctly adjusted.</li> <li>• Trust distributions have been correctly apportioned to different classes of income and adjusted accordingly.</li> <li>• CGT calculations are correct, including, discounted gains, indexed gains and capital losses. Note that capital losses must be applied before any discount.</li> <li>• Request asset register for cost base reset investments - CGT Deferral in the 2017 financial year. Verify the CGT calculation of any sales and adjust the register.</li> <li>• Foreign tax credits are correctly adjusted. Foreign tax credits can only be offset to the extent of foreign tax paid, or deemed to have been paid, on foreign income. Foreign tax offset claims of more than \$1,000 are determined according to the foreign income tax offset limit. See worked example from the ATO: <a href="#">Foreign Tax Offset</a>.</li> <li>•</li> </ul>
	<ul style="list-style-type: none"> <li>• Confirm whether CGT cost base adjustments required by section 104-70 of the ITAA 1997 (relating to differences between accounting and tax distributions from trusts) have been recorded and adjusted correctly.</li> <li>• Confirm whether NALI has been correctly identified and tax applied at the appropriate rate.</li> </ul>
<b>O.2</b>	<p>Where deferred tax is reported by the fund, complete the following procedures:</p> <ul style="list-style-type: none"> <li>• Check the deferred tax assets and liabilities are correctly calculated and reflected in the financial report, including: <ul style="list-style-type: none"> <li>- Deferred tax assets arising from unrealised losses are after discounting.</li> <li>- Deferred tax assets arising from tax losses have only been brought to account where the trustee is confident that these will be recoverable in the future.</li> </ul> </li> <li>• Prove the deferred tax assets and liabilities represent the tax effect of timing differences.</li> </ul>

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

Ref	Audit Procedure
<b>O.3</b>	Confirm that tax has been calculated for ordinary income at 15 per cent, unless the SMSF has received a notice advising it is non-complying for tax purposes. Ensure NALI is taxed appropriately
<b>O.4</b>	Confirm that PAYG instalments and TFN credits paid by the SMSF during the period have been correctly identified and applied against the current tax liability.
<b>P</b>	<b>GOING CONCERN</b>
<b>P.1</b>	<p>As the members of a defined contribution fund absorb any losses incurred, it is rare for these types of funds to have going concern issues. However, a going concern issue can arise when a fund has been wound up and the members were paid benefits exceeding their entitlements. Complete the following procedures in relation to going concern:</p> <ul style="list-style-type: none"> <li>• Review the net asset position of the fund to determine if a net asset deficiency exists.</li> <li>• Consider a modification to the auditor's report.</li> <li>• Solvency issues may be identified if the significant fund assets of the SMSF have not been correctly stated at market value. If you cannot obtain appropriate substantiation of the market value of significant fund assets or liabilities, the auditor may not be able to accept that the SMSF financial report is prepared on a going concern basis.</li> </ul>
<b>Q</b>	<b>SUBSEQUENT EVENTS</b>
<b>Q.1</b>	Identify any subsequent events which would affect the financial report, including any adverse events impacting investments, significant investment fluctuations and plans to wind up the fund that should be disclosed in the financial reports.
<b>R</b>	<b>OTHER AUDIT CONSIDERATIONS</b>
<b>R.1</b>	If there have been any transactions with related parties, ensure that these matters have been appropriately addressed and reported in accordance with the accounting policies adopted by the SMSF.
<b>R.2</b>	<p>Check whether material commitments and contingencies are properly disclosed by reviewing or obtaining:</p> <ul style="list-style-type: none"> <li>• Trustee minutes.</li> <li>• Solicitors' representations.</li> <li>• Trustees' representations.</li> </ul>
<b>R.3</b>	Consider the risk of fraud in the design of audit procedures and when evaluating trustee representations. Make reference to the requirements of ASA 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report</i> .
<b>S</b>	<b>TRUSTEE REPRESENTATIONS</b>
<b>S.1</b>	Obtain written representations from the trustee.
<b>S.2</b>	Evaluate that the representations appear reasonable and consistent with the other audit evidence and conclusions.
<b>S.3</b>	If necessary, seek corroborative evidence on trustee representations.

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

---

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