



SMSF Audit

To audit a self-managed superannuation fund (SMSF) you must be registered as an 'approved SMSF auditor'. ASIC has responsibility for registering approved SMSF auditors. The requirements for registration are imposed by the Superannuation Industry (Supervision) Act 1993 (SIS Act) and Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations). The Australian Taxation Office (ATO) has responsibility for monitoring the conduct of SMSF auditors and may refer an auditor to ASIC to consider taking further action, such as cancelling or suspending registration or imposing registration conditions.

To be registered as an approved SMSF auditor with ASIC, you must meet the following components:

- Be an Australian resident,
- Do not have certain disqualifications or suspensions in force,
- Be a fit and proper person to be registered as an approved SMSF auditor and capable of performing the duties of an approved SMSF auditor,
- Have adequate and appropriate PI insurance,
- Pass a competency examination. Examination addressing competencies is prescribed in ASIC Class Order [CO12/1687],
- Have the required level of practical SMSF auditing experience, and
- Have the prescribed qualifications..

Ongoing SMSF auditor registration requirements include completion of 120 hours of continuing professional development over each three-year period, which must include 30 hours of development on superannuation and at least 8 hours of development on auditing SMSF's.

Further information explaining how to apply for registration as an approved SMSF auditor and the requirements for registration is found in the published ASIC Regulatory Guide 243 *Registration of self-managed superannuation fund auditors*.

Trust Records

Members of Professional Accounting Bodies in Public Practice – Client Monies

APES 310 *Client Monies* (APES 310) specify a Member in Public Practice's (Member) professional and ethical obligations a) when the Member deals with client monies (holding, receiving or disbursing in a trust account or in a client bank account); or b) when the member acts as an auditor of client monies.

The Member who deals with client monies must appoint another Member who holds a certificate of public practice of Institute of Public Accountants, Chartered Accountants Australia and New Zealand or CPA Australia (Auditor of Client Monies) to undertake a reasonable assurance of the Member's compliance with the requirements of APES 310 within 3 months of the applicable year-end date.

Where the Member who is dealing with client monies does not have to maintain a trust account and can only co-authorise transactions in a client bank account in conjunction with the client, then the Member can engage an Auditor of Client Monies to perform a limited assurance engagement.

An Auditor of Client Monies shall perform an assurance engagement in accordance with Auditing and Assurance Standards (ASAE 3100 *Compliance Engagements*).

Examination of a law practice's trust records (WA)

Under section 237 of the *Legal Profession Act 2008* (Act), a law practice must have its trust records externally examined. The review period is 1 April to 31 March.

To be eligible as an external examiner a person must be a designated accountant who is either a registered company auditor or an employee or agent of the Board appointed by the Law Society of WA.

Real Estate and Business Agents

Under Section 70 of the Real Estate and Business Agents Act 1978 (the Act) requires all real estate and business agents who hold a current triennial certificate to have their trust accounts audited.

Section 72 of the Act requires the person auditing an agent's trust accounts to be a Registered Company Auditor. In districts where the Commissioner is satisfied there are no registered company auditors available, the Commissioner has the power to approve the appointment of a person as a statutorily appointed auditor even if they are not registered as a company registered auditor with the Australian Securities and Investment Commission.

Incorporated Associations WA

Incorporated associations that are also registered with the Australian Charities and Not-for-profits Commissions (ACNC)) will benefit from an exemption which allows them to report only to the ACNC provided they continue to lodge the Annual Information Statement to the ACNC for each financial year and follow their regulatory requirements.

Where an incorporated association does not benefit from the exemption to report to the ACNC, the following will apply. For information on the audit of those associations benefiting from the exemption, refer to the section below **Charities regulated by the ACNC**.

Under the *Associations Incorporation Act 2015*, financial reporting responsibilities depends on the size of the incorporated association. There are '3' tiers:

A tiered-financial reporting system has been established based on the associations annual revenue. Annual revenue is calculated based on the total amount of money received through the association's activities during a financial year in accordance with the Australian Accounting Standards.

- Tier 1 - annual revenue* less than \$500,000,
- Tier 2 - annual revenue* is \$500,000 or more but less than \$3 million in revenue
- Tier 3 (annual revenue* is more than \$3 million) – must prepare a financial report that is audited.

*Revenue is relates to the association's ordinary activities and is likely to include membership fees and subscriptions; fees and charges for provision of services; interest earned; grants from government, foundations, private (or any other sources), donations, bequests; and fees for provision of services or sale of goods. Application can be made to the Commissioner to be declared a specific tier for that particular financial year where an association's revenue increases because of a one off or unusual event which may push the association into a higher reporting tier.

Tier 1 associations

Presentation of an association's financial statements depends on whether the association is operating on a cash basis or accrual basis.

Where an association is operating on a cash basis, the financial statements may include:

- a statement of all the monies received and paid during the year,
- reconciled statement of all bank account balances at financial year end, and
- a statement detailing the associations total assets and liabilities as at the end of the financial year.

Where an association is operating on an accruals basis, the financial statements may include:

- a statement of the income and expenditure for the financial year; and
- a balance sheet.

Tier 1 associations do not need to have their financial statements externally reviewed or audited unless:

- its rules state otherwise (audit or review)
- a requirement under the association's funding agreement or licence,
- a majority of members vote to do so at a general meeting that a review or audit be completed, or
- directed to do so by the Commissioner.

Tier 2 associations

Tier 2 associations must prepare annual financial report in accordance with Australian Accounting Standards and include an Income Statement, Balance Sheet, other statements as required by accounting standards (such as a cash flow statement), notes to the accounts and the management committee's declaration.

All Tier 2 association's must have their accounts reviewed by an independent accountant. An independent accountant must be:

- a member, who holds a current public practice certificate (CPP holder), of the Institute of Public Accountants, the Institute of Chartered Accountants in Australia or CPA Australia,
- registered company auditor, or
- any other suitably qualified person approved by the Commissioner for Consumer Protection.

Tier 2 associations do not have to audit their accounts unless the majority of members at a general meeting pass a resolution that an audit will be completed; or the association is directed to do so by the Commissioner.

Tier 3

Tier 3 associations must prepare annual financial report in accordance with Australian Accounting Standards must have their accounts audited by an independent auditor.

An association's financial audit must be done by:

- a member, who holds a current public practice certificate (CPP holder), of the Institute of Public Accountants, the Institute of Chartered Accountants in Australia or CPA Australia,
- registered company auditor, or
- any other suitably qualified person approved by the Commissioner for Consumer Protection..

Audit of Proprietary Company

A large proprietary company is required to have its financial report audited (by a Registered Company Auditor), unless ASIC grants relief.

From financial years commencing on or after 1 July 2019, a proprietary company is defined as large for a financial year if it satisfies at least two of the below criteria:

- the consolidated revenue for the financial year of the company and any entities it controls is \$50 million or more
- the value of the consolidated gross assets at the end of the financial year of the company and any entities it controls is \$25 million or more, and
- the company and any entities it controls have 100 or more employees at the end of the financial year.

Large proprietary companies must prepare and lodge a financial report and a director's report for each financial year. The accounts must be audited unless ASIC grants relief.

Otherwise the company is classified as a small proprietary company and is not required to prepare a financial and consequently, an audit is not required. However, if the small company is foreign controlled company (and an exemption is not obtained) or if ASIC or shareholders representing at least 5% of the voting shares deem it necessary, the company must follow the requirement to prepare a financial report and have it audited.

Companies Limited By Guarantee

Companies that are limited by guarantee that are a registered charity with the Australian Charities and Not-for-profits Commissions (ACNC), must meet the requirements of the *ACNC Act 2012* and comply with the governance standards in the *ACNC Regulation 2013*. Therefore, a number of provisions of the Corporations Act that would otherwise apply to companies limited by guarantee, do not apply to registered charities..

A three-tier differential reporting framework for companies limited by guarantee has been established.

- Tier 1 (annual revenue less than \$250,000 and does not have deductible gift recipient status) - has no obligation to prepare a financial report or have its financial report audited, unless required to do so under its constitution or a member of the company or ASIC direction;
- Tier 2 (annual revenue is \$250,000 or more but less than \$1 million or that have deductible gift recipient status) - must prepare a financial report which they could elect to be reviewed rather than audited;
- Tier 3 (annual revenue is more than \$1 million) - must prepare a financial report and have it audited.

Members of the Institute of Public Accountants, Chartered Accountants Australia and New Zealand or CPA Australia, in public practice can undertake the review of Tier 1 (where required) or Tier 2 Company Limited by Guarantee. An audit of Tier 2 or Tier 3 Company Limited by Guarantee entities must be conducted by a registered company auditor.

A company limited by guarantee that is registered as a charity does not have to report annually to ASIC but must submit an Annual Information Statement to the ACNC with a financial report if the charity is medium or large. A medium or large charity must meet all ACNC requirements, (see Audit of Charities requirements below).

Charities regulated by the ACNC

Charities are regulated by the Australian Charities and Not-for-Profit Commission (ACNC). Under the Australian Charities and Not-for-profits Commission Act 2012 (Cth) (*ACNC Act 2012*) charities reporting requirements are dependent on their classification as either small, medium or large charities. For reporting periods starting from 2022 Annual Information Statement, charity sizes are:

- Small charities (annual revenue* is less than \$500,000) - need to submit an Annual Information Statement (AIS). From 2015 onwards the Annual Information Statement will include basic financial questions.
- Medium charities (annual revenue* is \$500,000 or more but less than \$3 million) - must submit an Annual Information Statement and a annual financial report that is reviewed or audited. A charity's governing document or grant funding agreements may state whether its financial report needs to be reviewed or audited.
- Large charities (annual revenue* is more than \$3 Million) - must submit an Annual Information Statement and an annual financial report** that is audited.

*Revenue is total income and includes a charity's ordinary activities such as grants from government, foundations, private (or any other sources), donations, fees for provision of services, sale of goods, interest earned on investments, in-kind donations and royalties.

**Financial reports must be either Special purpose financial statement (if not a [x]), or General Purpose Financial Statement – Reduced/Simplified Disclosure Requirements (Tier 2), or General Purpose Financial Statement (Tier 1).

Where a charity receives a one-off donation (for example a large bequest), it may change size for one reporting period. If the charity is likely to return to its original size in the following reporting period, it can apply to keep the original charity size for the reporting period.

Small charities do not need to be audited unless the charity's governing document requires a review or audit. The audit of a medium or large charity must be conducted by a registered company auditor or an authorised audit company. A review of a medium company can be conducted by a member of the Institute of Public Accountants, Chartered Accountants Australia and New Zealand or CPA Australia, in public practice.

Co-operatives – Western Australia

Co-operatives are regulated by Consumer Protection WA. Western Australia co-operatives are registered under the *Co-operatives National Law Application Act 2013*, *Co-operatives Act 2009 (WA)* and *Co-operatives Regulations 2010*.

Co-operatives financial reporting requirements are dependent on their size as either small co-operatives or large co-operatives:

Co-operatives financial reporting requirements are dependent on their size as either small co-operatives or large co-operatives:

- Small co-operatives – a co-operative is classified as a small co-operative for a financial year if it did not raise funds in excess of \$2 million by the issue of shares to more than 20 members and it satisfies at least two of the following criteria:
 - i. consolidated revenue is less than \$8 million;
 - ii. consolidated gross assets are less than \$4 million;
 - iii. has fewer than 30 employees.
- All other co-operatives are large.

A small co-operative does not require an audit, unless the co-operative is directed to prepare audited financial statements or reviewed financial statements either by its members or the Registrar. Small co-operatives must provide to its members within five months of the end of the co-operative's financial year, a report including an income and expenditure statement, a balance sheet, a statement of changes in equity and a cash flow statement (only required if consolidated revenue is \$750,000 or more or if consolidated gross assets is \$250,000 or more).

A large co-operative must have an audit and the auditor must be a registered company auditor. Large co-operative's are required to report to members within five months after the end of the financial year.