

Joint Accounting Bodies

Audit considerations relating to an SMSF using an investment management service organisation

Frequently asked questions – September 2023



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Introduction

These frequently asked questions (FAQs) respond to questions that members have asked the Joint Accounting Bodies in relation to auditing self-managed superannuation fund (SMSF) financial reports where the SMSF outsources the management of its investments to a service organisation. This is commonly an individually managed portfolio service, which ranges from an ASIC registered investor directed portfolio service (IDPS), such as a wrap account, to basic consolidated reporting provided by a financial adviser.

Generally, the custodian is part of the service organisation and investments are held in the name of the custodian on behalf of the SMSF as the beneficial owner. Accordingly, these FAQs focus on auditing ownership of investments, they do not consider the other financial statements assertions e.g., the valuation of such investments. Investments can be shares, cash, term deposits, managed funds and other assets. In many cases these investments represent the majority of the SMSF's assets. The SMSF may receive investor statements quarterly and annually for the investments it holds, and trade confirmations for any sales and purchases made. The service organisation may also obtain a type 2 report which it provides to SMSFs and their SMSF auditors.

These FAQs cover the key considerations for SMSF auditors when auditing the financial report of an SMSF uses an investment management service organisation. These FAQs aim to provide some simple, concise signposting by bringing together relevant paragraphs of the applicable auditing and assurance standards, and guidance statements. These FAQs are not designed to assist with interpreting these pronouncements or applying them to specific scenarios. In some cases, it is possible to obtain sufficient appropriate audit evidence, but there is no one-size-fits-all approach, and the outcome is not binary. As with all audits, the nature, timing and extent of audit procedures are based on risk and the auditor's professional judgement.

Several Auditing and Assurance Standards Board (AUASB) pronouncements are referenced in these FAQs, the key ones are:

- [ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation](#)
- [ASAE 3402 Assurance Reports on Controls at a Service Organisation](#)
- [GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services](#)
- [GS 009 Auditing Self-Managed Superannuation Funds](#)

We hope those involved in auditing SMSF financial reports find these FAQs useful.

We would like to acknowledge the assistance of members and other stakeholders who have contributed to these FAQs.

Frequently asked questions

| Question | Response |
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| Type 2 reports | |
| <p>1. What is a type 2 report?</p> | <p>It is a report on the description, design and operating effectiveness of controls at a service organisation that comprises:</p> <ul style="list-style-type: none"> (i) The service organisation’s description of its system; (ii) A written statement by the service organisation that, in all material respects, and based on suitable criteria: <ul style="list-style-type: none"> a. The description fairly presents the service organisation’s system as designed and implemented throughout the specified period; b. The controls related to the control objectives stated in the service organisation’s description of its system were suitably designed throughout the specified period; and c. The controls related to the control objectives stated in the service organisation’s description of its system operated effectively throughout the specified period; and (iii) A service auditor’s assurance report that: <ul style="list-style-type: none"> a. Conveys a reasonable assurance conclusion about the matters in (ii)a.-c. above; and b. Includes a description of the tests of controls and the results thereof (ASAE 3402.9(k)). <p>The assurance engagement is conducted under ASAE 3402 Assurance Reports on Controls at a Service Organisation.</p> |
| <p>2. How does a type 1 report differ from a type 2 report?</p> | <p>In a type 1 report, the assurance report does not opine on whether the controls operated effectively throughout a specified period, only on the description and design of controls.</p> |
| <p>3. How is the scope of the assurance engagement determined?</p> | <p>The scope of the assurance engagement is determined by the service organisation as it prepares the description of its system including control objectives, and the controls designed to achieve those objectives.</p> |
| <p>4. How does a type 2 report relate to the audit of a financial report of an SMSF ?</p> | <p>Type 2 reports can provide the SMSF auditor with appropriate audit evidence over the operating effectiveness of controls that relate to an SMSF’s financial report, complementing ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation which in turn may be used in some circumstances to reduce the extent of substantive procedures needed (ASAE 3402.1 and GS 009.142).</p> |

5. What controls can an SMSF auditor reasonably expect to be covered by a type 2 report?

Appendix 3 of [GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services](#) sets out the minimum control objectives which an SMSF auditor using a type 2 report can reasonably expect to be addressed in the service organisation's description of its investment management service system. The control objectives included are those which are likely to be relevant to an SMSF's controls as they relate to financial reporting, and includes the following:

- Investment transactions are properly authorised, settled and recorded completely and accurately, and on a timely basis in accordance with client instructions.
- Assets held are appropriately registered and client money is segregated.
- Investment income and related tax are accurately recorded in the proper period.
- Investment management fees and other account expenses are accurately calculated and recorded in accordance with client agreements and/or offer documents.
- Client reporting in respect of portfolio transactions and holdings (e.g., annual investor statements) is complete and accurate and provided within required timescales.

Risk assessment

6. What is the risk in relation to SMSF investments when the management of those investments is outsourced to a service organisation?

Assets held under custody are held as a single holding in the name of the custodian on behalf of the SMSF as the beneficial owner. Individual investors hold a specified number of units which determine the value of the individual holding (GS 009.147). If investments are held in the name of the custodian, the auditor is unable to verify the SMSF's holdings through independent means, e.g., by searching for the SMSF's holder identification number (HIN) on a share registry (GS 009.206). The risk is around rights and obligations over investments (attribution to individual investors) – does the SMSF hold or control the rights to those investments? (ASA 315.A190.(b)(ii)).

Audit evidence

7. Is it possible for the auditor to obtain sufficient appropriate audit evidence over an SMSF's investments when it outsources to an investment management service organisation?

In determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the SMSF, the following procedures may be considered by the auditor (ASA 402.A26):

- (a) Inspecting records and documents held by the SMSF.
- (b) Inspecting records and documents held by the service organisation.
- (c) Obtaining confirmations of balances and transactions from the service organisation.
- (d) Performing analytical procedures on the records maintained by the SMSF or on the reports received from the service organisation.

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| | <p>The auditor may be able to obtain sufficient appropriate evidence over an SMSF's investments when it outsources to an investment management service organisation through a combination of (GS 009.207-210):</p> <ul style="list-style-type: none"> • A type 2 report. • An annual investor statement (which may or may not be subject to assurance). • An external confirmation from the service organisation. • Analytical review procedures of the SMSF's investment activity, e.g., a comparison of investment returns with market indices. • Reconciling balances and transactions to records held by the SMSF e.g., trade confirmations transactions to bank statements. <p>Please note this is not an exhaustive list and there may be instances where an SMSF auditor is able to obtain alternative evidence not listed above that constitutes sufficient appropriate audit evidence.</p> |
| <p>8. Does an auditor need to carry out all those procedures to obtain sufficient appropriate audit evidence?</p> | <p>The nature, timing and extent of audit procedures are based on, and are responsive to, the assessed risks of material misstatement at the assertion level. The higher the auditor's assessment of risk, the more persuasive the audit evidence the auditor obtains must be (ASA 330.7(b)). To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both (ASA 330.A19).</p> |
| <p>9. How does an auditor decide what procedures to carry out?</p> | <p>The nature of the audit procedures required to obtain sufficient appropriate audit evidence are a matter for the auditor's professional judgement in accordance with the assessed inherent risks in the SMSF (GS 009.205). Audit evidence is cumulative in nature. The sufficiency and appropriateness of evidence are interrelated.</p> |
| <p>10. Does the type 2 report provide sufficient audit evidence on relevant controls on its own over an SMSF's investments?</p> | <p>In most cases investments represent the majority of the SMSF's assets. If the investment balance is material, then the auditor must perform substantive procedures over investments, irrespective of the assessed risks of material misstatement (ASA 330.18). A type 2 report is essentially a test of controls so would not be sufficient audit evidence on its own for material investments.</p> |
| <p>11. What are the key considerations for an auditor planning to use a type 2 report as audit evidence for an SMSF's investments?</p> | <p>If an auditor plans to use a type 2 report as audit evidence for an SMSF's investments, the auditor shall determine whether the type 2 report provides appropriate audit evidence about the effectiveness of the controls to support their risk assessment (at the assertion level) by considering:</p> <ul style="list-style-type: none"> • The assurance practitioner's professional competence and independence from the service organisation. • The adequacy of the standards under which the type 2 report was issued (ASA 402.13). |

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| | <ul style="list-style-type: none"> • The time period covered by the tests of controls and the time elapsed since the performance of the tests of controls. • The scope of the assurance practitioner’s work and the services and processes covered, the controls tested and tests that were performed, and the way in which tested controls relate to the SMSF’s financial report. • The results of those tests of controls and the assurance practitioner’s opinion on the operating effectiveness of the controls (ASA 402.A31). |
| <p>12. Does a type 2 report from an SMSF’s investment management service organisation provide relevant evidence for the audit of the financial report of an SMSF?</p> | <p>A type 2 report may be intended to satisfy the needs of several different user auditors. Therefore, tests of controls and results described in the assurance practitioner’s report may not be relevant to assertions that are significant in the SMSF’s financial report. The relevant tests of controls and results are evaluated to determine that the assurance practitioner’s report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the SMSF auditor’s risk assessment (ASA 402.A31).</p> |
| <p>13. Does the annual investor statement constitute sufficient appropriate audit evidence on its own?</p> | <p>An annual investor statement that is not subject to assurance may not constitute sufficient appropriate audit evidence on its own (GS 007.32).</p> <p>Where the service organisation controls the recording of investments, the annual investor statement may not constitute sufficient appropriate audit evidence on its own (GS 009.207).</p> |
| <p>14. When would an annual investor statement be subject to assurance?</p> | <p>Operators of investor directed portfolio services (IDPS) and investor directed portfolio-like services are required by ASIC¹ Class Order 13/763 Investor Directed Portfolio Services and Class Order 13/762 Investor Directed Portfolio-like Services Provided Through a Registered Managed Investment Scheme to obtain an auditor’s report providing:</p> <ul style="list-style-type: none"> (a) an opinion on the internal controls and other relevant accounting procedures as they relate to the specific annual investor statements; and (b) a review conclusion on the annual investor statements, quarterly reports in certain circumstances and information accessible to clients electronically. <p>Reports provided under these class orders may provide sufficient appropriate audit evidence for an SMSF auditor (GS 007.16).</p> <p>The extent of the reliance to be placed on an audited annual investor statement is determined after a review of the assertions relevant to information contained in the auditor’s report (GS 009.143).</p> |

¹ Also see [ASIC’s Regulatory Guide RG 148 Platforms that are managed investment schemes and nominee and custody services](#)

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| <p>15. What about if the auditor also obtains an external confirmation from the service organisation to corroborate information in the annual investor statement?</p> | <p>The reliability of audit evidence is increased when it is obtained from independent sources outside the entity e.g., a service organisation (ASA 500.A35). Audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity (ASA 505.2).</p> <p>If the SMSF maintains independent records of balances and transactions, confirmation from the service organisation corroborating the SMSF records may constitute reliable audit evidence concerning the existence of the transactions and assets concerned.</p> <p>If the SMSF does not maintain independent records, information obtained in confirmations from the service organisation is merely a statement of what is reflected in the records maintained by the service organisation. Therefore, such confirmations do not, taken alone, constitute reliable audit evidence (ASA 402.A26(c)).</p> |
| <p>16. What independent records could the SMSF maintain?</p> | <p>For a standalone investment mandate, where the IDPS operator or service organisation maintains the SMSF's accounting records, including source documentation, implements investment decisions based on the mandate, and holds the investments on behalf of the SMSF under a custodial arrangement, the SMSF may maintain only limited independent accounting records, source documentation or banking records (GS 009.208).</p> <p>Trade confirmations can be used to verify movements in the number of investment units held by the SMSF and/or agreed to the SMSF's bank statements. Trade confirmations are issued to the investor after each trade and is a detailed record of the trade that includes what was traded, the date of the trade, the cost of trade, the net value, any commissions or fees that were charged etc..</p> |
| <p>Data feeds</p> | |
| <p>17. Does this change if the SMSF is administered through software that uses data feeds?</p> | <p>The use of data feeds presents additional audit considerations regarding the appropriateness of the audit evidence used as the basis for the auditor's opinion (GS 009.99). SMSF administrators are also service organisations.</p> |
| <p>18. What is a data feed?</p> | <p>A data feed is a way of transferring information. Generally, there are two ways in which this can be done:</p> <ul style="list-style-type: none"> • Application Programming Interface (API): direct access to certain data is authorised and automated through paid arrangements. • Web scraping: extracting data from a specific source by way of manual or software tools. |

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| <p>19. What are the additional audit considerations?</p> | <p>It is important that an auditor understands the control environment that is supporting the data feed process (GS 009.100). Where an API is used, it may be possible for the service organisation to obtain a type 2 report to provide appropriate audit evidence over the operating effectiveness of controls at an assertion level. In this case the auditor may have two type 2 reports to provide audit evidence: one from the investment manager service organisation, and one from the administration service organisation.</p> |
| <p>Auditor's report</p> | |
| <p>20. In what circumstances would an auditor issue a qualified audit opinion on the financial report of an SMSF?</p> | <p>An auditor would issue a qualified opinion on the financial report of an SMSF if they are:</p> <ul style="list-style-type: none"> (a) Able to obtain sufficient appropriate audit evidence and misstatements are material but not pervasive (ASA 705.7(a)); or (b) Unable to obtain sufficient appropriate audit evidence and the possible effects could be material but not pervasive (ASA 705.7(b)). |
| <p>21. What does pervasive mean?</p> | <p>It is a term used, in the context of misstatements, to describe the effects on the financial report of misstatements or the possible effects on the financial report of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial report are those that, in the auditor's judgement:</p> <ul style="list-style-type: none"> (a) Are not confined to specific elements, accounts or items of the financial report; (b) If so confined, represent or could represent a substantial proportion of the financial report; or (c) In relation to disclosures, are fundamental to users' understanding of the financial report (ASA 705.5). |
| <p>22. What if investments are material and pervasive and the auditor is unable to obtain sufficient appropriate audit evidence?</p> | <p>If an auditor is unable to obtain sufficient appropriate audit evidence, and the possible effects could be both material and pervasive then the auditor would issue a disclaimer of opinion (ASA 705.9). If investments represent the majority of the SMSF's assets, although confined, they could represent a substantial proportion of the SMSF's financial report (i.e., be pervasive).</p> |
| <p>23. What if an auditor knows from the outset that they will have to issue a disclaimer of opinion?</p> | <p>If an auditor knows there is going to be an imposed limitation of scope (also referred to as auditor's inability to obtain sufficient appropriate audit evidence) resulting in a disclaimer of opinion, then the auditor must not accept the engagement unless required by law or regulation to do so (ASA 210.7).</p> |

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| 24. What if the auditor has already accepted the engagement, but not issued the auditor's report, and becomes aware that there is a limitation of scope likely to result in a disclaimer of opinion? | The auditor shall: <ul style="list-style-type: none">(i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or(ii) If withdrawal from the audit is not practicable or possible, the auditor shall disclaim an opinion on the financial report (ASA 705.13(b)). |
| 25. What is the limitation of scope? | A limitation of scope exists when an auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation that are relevant to the audit of the SMSF's financial report. Whether the auditor expresses a qualified opinion or disclaims an opinion depends on the auditors conclusion as to whether the possible effects on the SMSF's financial report are material or pervasive (ASA 402.20 and ASA 402.A42). |