



BALDRY & CARR

accounting for business & rural

The Trustees of:

Name of Fund: _____

Fund Address: _____

Dear Sir / Madam,

RE: AUDIT ENGAGEMENT LETTER

The objective and scope of the audit

You have requested we audit _____ Superannuation Fund:

1. Special purpose financial report, which comprises the statement of financial position as at 30 June (year of audit: _____) and the operating statement for the year/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 Australian Taxation Office (ATO), which are
Sections: 17A, 35AE, 35B, 35C (2), 62, 65, 66, 67,67A, 67B, 82-85, 103, 104, 104A, 105, 109, 126K
Regulations: 1.06(9A), 4.09, 4.09A, 5.03, 5.08, 6.17, 7.04, 8.02B, 13.12, 13.13, 13.14 ,13.18AA

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. This letter will be effective for future years unless we are required to revise it per ATO requirements, or the engagement is terminated. Our audit will be conducted pursuant to SISA with the objective of our expressing an opinion on the financial report and the fund's compliance with the specified requirements of 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 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

Liability limited by a scheme approved under Professional Standards Legislation

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misstatement and you have complied, in all material respects, with the specified requirements of SISA and SISR and the governing rules of the fund.

We will conduct our engagement in accordance with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

In performing our audit procedures, we will obtain audit evidence about the compliance activity of the fund and controls implemented to meet the various SISA and SISR compliance requirements. The procedures selected will depend on our judgement, including the identification and assessment of risks of material non-compliance.

The timing of the audit will be dictated by the provision of relevant documentation to commence the audit. In accordance with section 35C of 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 SISR, being a day before the latest date stipulated by the ATO for lodgment of the fund's Annual Return.

We apply Australian Standard on Quality Control 1 ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* in undertaking this assurance engagement and accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal & regulatory requirements.

We comply with the competency standards set by the Australian Securities & Investment Commission (ASIC), the auditor independence requirements prescribed by in accordance with the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) as required by SISR and the ethical requirements relating to assurance engagements which are founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our audit will be conducted on a third-party online audit program – Online SMSF Audit, which offers various audit methodologies and processes including storing of audit evidence and reports on their secured server. Online SMSF Audit stores client information on their servers in Sydney under 'Servers Australia'.

Financial audit

Our financial audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depends on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

Our audit objective is to obtain reasonable assurance about whether the financial report is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. These audit procedures may include to identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion.



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Our financial audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used, and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation of the financial report.

Due to the test nature and other inherent limitations of an assurance audit engagement and the inherent limitations of any accounting and internal control systems, the possibility of collusion to commit fraud, and the possibility that some audit evidence is persuasive and not conclusive, there is an unavoidable risk even some material misstatements due to fraud, error or due to non-compliance with SISA and SISR may remain undiscovered.

A reasonable assurance engagement does not provide assurance on whether compliance with all SISA and SISR provisions will continue in the future. As a result, our audit can only provide reasonable, not absolute, assurance that the financial report is free from any material misstatement.

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.

Our procedures do not include a review of the Fund's self-managed superannuation fund annual return, although we may peruse it to identify areas that require our close attention. Accordingly, no opinion will be given, and no responsibility taken for any issues arising from any inaccuracies in the annual return lodged. We also do not audit the member statements; however, we do complete an audit of the movements in the member account during the financial year. Accordingly, we are unable to provide an opinion as to the accuracy of historical components and eligible service date information that relate to transactions that occurred in prior years.

Going Concern Concept

In our audit report, we will conclude on the appropriateness of trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If we conclude a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.

Compliance engagement

A compliance engagement involves performing audit procedures to obtain audit evidence about the Fund's compliance with the provisions of SISA and SISR specified in the ATO's approved 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 gives due consideration to risk, return, liquidity, diversification, insurance policies for members and review regularity of the investment strategy. 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.

Engagement restricted only to provision of audit opinion and compliance conclusion

Our engagement is restricted to the provision of an audit opinion on the financial statement and provision of a conclusion on each trustee's compliance with the specified sections and regulations of SISA and SISR as mentioned in the ATO recommended audit report.

We are not engaged to provide any financial advice. If we make any comments on any asset, should not be construed as financial advice and each trustee should consider seeking professional assistance with respect to any comments made. We are not licensed financial advisers and do not provide financial advice. We do not provide any opinion or otherwise on the suitability of the trustee selected or third party recommended and implements investments.

It is not expected that we will form an opinion on any investment or investment strategy or trustee action. We take no responsibility for and provide no warranty or assurance the investment strategy and fund's investments and trustee actions are appropriate or suitable for the Fund and its members and or their beneficiaries (as the case may be).

Our audit does not guarantee any investment performance, return of capital, income payment, tax effectiveness, minimization of stamp duty or land taxes or other taxation measures or otherwise from any investment of the Fund or any investment strategy or trustee action.

The responsibilities of the trustees

We take this opportunity to remind you it is the responsibility of the trustees to ensure the Fund, at all times, complies with SISA and SISR as well as any other legislation relevant to the Fund. Each trustee is responsible for the preparation and fair presentation of the financial reporting requirements of the Fund's governing rules, SISA and SISR.

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

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 all transactions are recorded and the recorded transactions are valid, accurate, authorised, properly classified and promptly recorded, to facilitate the preparation of reliable financial information.
- This responsibility to maintain adequate internal controls also extends to the Fund's compliance SISA 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.

- Identifying, designing and implementing internal controls as they determine necessary to meet compliance requirements of SISA and SISR and monitor ongoing compliance.
- Assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the trustees intend to wind-up the fund. The going concern basis of accounting is appropriate when it is reasonably foreseeable the fund will be able to meet its liabilities as they fall due.
- Ensuring that there were no events which existed at the date of the financial report which require adjustment to the financial statement and applying appropriate accounting policies including disclosing all events or transactions which are non-adjusting event as per Australian Accounting Standards (AASB 110), that 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 that financial position of the Fund or its operations are not misleading.
- If the preparation of financial report is outsourced, then each trustee is responsible for overseeing the fund's financial reporting process.
- Making accounting estimates that are reasonable in the circumstances.
- Reviewing on a regular basis a compliant investment strategy, considering all investment risks/decisions in making Fund investments (and assessment of recoverability of Fund investments).
- Ensure that restrictions on contributions are followed where a member's Total Superannuation Balance exceeds the cap amount (currently \$1.6 million).
- 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 SISA requires Trustees must give to the auditor any document the auditor requests in writing within 14 days of the request.

As part of our audit process, we will request from the trustees written confirmation concerning representations made to us in connection with the audit. This will be in the form of a Trustee Representation Letter.

Valuing all investments at market value.

Investments are valued at net market value at the financial year end.

It is the trustee's responsibility to use qualified independent valuer, where the value of the asset represents a significant proportion of the fund's value or the nature of the asset indicates that the valuation is likely to be complex.

In valuation of listed shares and listed managed units, the trustees should use the closing price on each listed security's approved stock exchange or licensed market at the end of the financial year.

Trustees while valuing real property must base it on objective and supportable data or use external valuation where they expect the valuation is materially inaccurate or a significant event (such as a natural disaster, macro-economic events, market volatility or changes to the character of the asset)





has occurred since it was last valued.

When valuing any investment in unlisted security for end of the year financial year statement, for example, a share in a private company, or a unit in an unlisted trust, Trustees must take into account a number of factors that may affect its value, including both the:

- value of the assets in the entity
- consideration paid on acquisition of the unlisted securities or units.

Trustees must use market values that are based on either published exit price from the unit trust register or unit trust manager or company director of the private company. Trustees at the time of signing the financial statements of the fund agree that they are aware of the value of all the assets funds and agree that their valuation is correct specially unlisted assets (such as units in unlisted managed funds, syndicates or private company). Trustees have ensured that they are satisfied with valuation of all assets and where ever they had doubts on valuation, they have used an external independent valuer specially where ever they were of the opinion that the nature of the asset indicates that the valuation is likely to be complex.

Trust Deed and deeds of change of Trustee

Trustees should seek appropriate legal advice to execute, amend or modify the Trust deed and establish the Trust on an ongoing and compliant basis.

We, as auditors, do not examine whether the Trust deed or modifications or amendments to the Trust deed are validly executed and will not be responsible if there are legal dispute between trustees. We will not be responsible if any documents are not legally executed and specifically exclude all liability for damages associated with an incorrectly executed or amended or changed trust deed or new Trustee appointment or removal.

Reliance on audit report by external parties

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.

Borrowings by the Fund

If the fund invests in a limited recourse borrowing arrangement (LRBA) or similar investment, we specifically make no warranty or assurance regarding whether potential stamp duty and capital gains taxation liabilities are minimized, now or into the future. We provide no assurances on the compliance or otherwise of such LRBA arrangements to parties involved in providing finance to the fund.





Communication with SMSF trustees/directors

We will communicate with you if we have any concerns during the audit. Since you have chosen an accountant / administrator to provide us documents and financial statements of the fund for audit, you agree that all communications to your accountant / administrator are deemed to also be communications to you. If your Fund has more than one trustee/director, you agree communications with one trustee/director are deemed to be communications with all trustees/directors.

We may want to communicate directly with you in relation to audit of your fund regarding:

- recoverability of a loan investment by the Fund; or
- value of the asset in the financial statements may be overstated.

In these circumstances, you agree that we should directly contact and communicate with your accountant in relation to any our concerns and we do not need to notify you before directly contacting and communicating with the your accountant / administrator and we have discretion to decide whether to include you in any direct communication with your accountant / administrator.

Independence

We confirm, to the best of our knowledge and belief, the engagement team meets the current independence requirements of APES 110 Code of Ethics for Professional Accountants (as amended), issued by the Accounting Professional & Ethical Standards Board in relation to the statutory audit engagement (an audit required by legislation) of the Fund. Hence no member of the engagement team can provide any accounting, legal or financial advice. Our engagement as an auditor of the fund is limited to obligations imposed on us by SISA (e.g. section 129).

In conducting our financial audit and compliance engagement, should we become aware we have contravened these independence requirements, we shall notify you on a timely basis. However, please note we are not engaged to provide any financial advice, and none will be provided, including an opinion, if a self-managed superannuation fund is appropriate for trustees or they have taken responsibility of where member funds are invested, or trustees understand their legal and taxation obligations.

We have complied with the competency standards set by ASIC.

Our engagement does not include us forming an opinion nor advising trustees on the following:

- the members have sufficient funds to establish the Fund or continue to manage the Fund;
- investment restriction on underlying assets;
- rollover to the Fund or transferring assets to the Fund;
- level and type of contributions by each member of the Fund;
- monitor members eligibility to make contributions in respect of Total Superannuation Balance;
- acquiring or disposing any particular financial product or class of financial product;
- initial and ongoing costs of administering the Fund;
- if they are prepared and able to allocate the time and skill needed to administer the Fund;
- if they have adequate insurance cover for all members of the Fund;
- limited government protections in the event of fraud or theft or dispute;
- limited access to superannuation complaints tribunal; or



- advantages and disadvantages of a self-managed superannuation fund (SMSF).

Report on matters identified

Under section 129 of 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 SISA or SISR which we believe has occurred, is occurring or may occur. Furthermore, you should be aware we are also required to notify the ATO of certain contraventions of SISA and SISR we become aware of during the audit, which meet the tests stipulated by the ATO, irrespective of materiality of the contravention or action taken by the trustees to rectify the matter, even if you terminate the engagement. 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 any matters reported to you, or a report that there are no matters to be communicated, indicates there are no additional matters, or matters you should be aware of in meeting your responsibilities. The completed audit report may be provided to you as a signed printed copy or a signed electronic version via email or any other electronic means.

As you aware each investment has multiple risks, including loss of capital. In conducting our audit, we will not be checking the liquidity of the Fund's assets, the nature or class of investments, nor their suitability to the Fund's investment strategy. If any asset's capital is lost, due to any reason, we will not be responsible for any damages under section 12GF of Australian Securities and Investments Commission Act 2001. You are responsible for investing the Fund's assets and you should take full care of those investments. However, as an auditor, it is our duty of care to inform you, if in our opinion, we notice any investments are not recoverable. Please note many investments are complex in nature and we are not trained as SMSF auditors to analyse each investment, hence you should not entirely rely on our opinion.

In conduct of our audit, we are not required to form an opinion and report to you if the Fund is making or likely to make an economic loss or the Fund's assets are getting damaged or likely to get damaged due to conduct of any other person who you rely for investment decisions or appoint as custodians or investment manager. We are appointed to audit the Fund's financial report and not to audit entities where this Fund invests such as custodian services, unrelated trusts, companies or other entities.

Compliance program

The conduct of our engagement in accordance with Australian Auditing Standards and applicable Standards on Assurance Engagements means information acquired by us during 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, the ATO, or ASIC. We advise you by signing this letter you acknowledge, 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.

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Limitation of liability

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 you will make available to us whatever records, documentation and other information are requested in connection with our audit.

Our fee will be billed as work in progress or once the audit has been completed and will be based on the time required to complete the engagement. Any out of pocket expenses will be billed separately.

Further, where a contravention report needs to be lodged with the ATO, an additional fee will be charged for the preparation and lodgment of the contravention report.

Use of a specialist

In some limited circumstances, it may be necessary for us to seek legal, Actuarial or valuer advice in relation to the audit of your Fund. We will first seek to obtain a fee quote from a law firm/legal adviser for your approval before incurring any fees. Such fees will be billed to you as disbursements.



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Other

Please sign and return the attached copy of this letter to indicate it is in accordance with your understanding of the arrangements for our financial audit and compliance engagement of Superannuation Fund.

Yours faithfully,

Baldry & Carr

Alison Carr
SMSF Auditor

I/We understand, consent to and agree with all the terms of this engagement:
Acknowledged on behalf of the trustees of Superannuation Fund:

Signed

Signed

Trustee Name:

Trustee Name:

[Date]

[Date]



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