



# AUASB Agenda Paper

|                                   |   |                     |               |
|-----------------------------------|---|---------------------|---------------|
| <b>Title:</b>                     | Revised GS 002 <i>Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities</i> | <b>Date:</b>        | 15 April 2026 |
| <b>Office of the AUASB Staff:</b> | Rajen Pillay / Marina Michaelides   | <b>Agenda Item:</b> | 3.0           |

## Objective of this Agenda Paper

1. The objective of this Agenda Paper is to seek approval of a revised GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities* (revised GS 002).

## Questions for AUASB members

| No. | Questions   |
|-----|---|
| 1   | Do AUASB members have any feedback on the draft revised GS 002?   |
| 2   | Subject to any changes required by the AUASB and any minor typographical changes, does the AUASB approve the revised GS 002 (see Agenda Paper 3.1)? |

## Background

2. GS 002 provides guidance to auditors of Registrable Superannuation Entities (RSEs) reporting pursuant to prudential reporting requirements specified by APRA.
3. The revised GS 002 has been updated primarily for a revised APRA [Prudential Standard SPS 310 Audit and Related Matters](#) (SPS 310) in June 2024, and revised APRA CPS 230 [Operational Risk Management](#) and APRA SPS 114 [Operational Risk Financial Requirement](#) from 1 July 2025.
4. The APRA Superannuation National Consultative Committee (SNACC) was used in place of a project advisory group having regard to its participants knowledge of GS 002 and the underlying APRA requirements. The SNACC also reviewed an AUASB Illustrative Auditor's Report that replaced the annual audit reporting form to APRA and to which GS 002 refers.
5. The SNACC consists of representatives with relevant expertise from APRA, the largest audit firms, the professional accounting bodies and ASIC. The following matters were discussed at a SNACC meeting in October 2024, and feedback was received as detailed below:
  - a) *Need for GS 002* – it was confirmed that there is a need for the guidance given the recent changes in the regulatory landscape, as well as ensuring consistency in audit approach and maintaining audit quality.
  - b) *Content* - changes were required to reflect the revised SPS 310. There was no objection to removing some of the repetition in GS 002 with APRA's SPS 310 and AUASB pronouncements by the use of cross-references.
  - c) *Audit report formats* – APRA have withdrawn their approved annual audit form and it was agreed that an illustrative auditor's report template would be included on our website separate from GS 002. This will facilitate future updates to the illustrative report without impacting the GS itself.
6. A draft revised GS 002 was provided to APRA and ASIC for feedback in January/February 2025. Following this feedback, an updated draft was made available in March/April 2025 to other stakeholders that form part of the SNACC group for their input. Consideration of feedback provided by all stakeholders and further meetings were conducted from March to December 2025 as required.

## Illustrative auditor's report

7. The illustrative auditor's report was completed for the year ended 30 June 2025 in consultation with APRA and SNACC members and posted on the AUASB website (see [Illustrative Auditor's Report – Prudential Standard SPS 310 Audit and Related Matters](#)). The main change was to remove Part 1 of the former APRA annual auditor's report form concerning the audit of the financial report. The financial report is now lodged with ASIC under Chapter 2M of the *Corporations Act 2001*. The requirements of that Act and ASA 700 apply to that report similar to companies.
8. At the SNACC meeting in June 2025 a draft illustrative auditor's report containing Parts 2 and 3 of the former APRA annual auditor's report form with minor changes consistent with revised APRA prudential requirements was discussed. The illustrative auditor's report will be updated in future for any changes in prudential or assurance requirements.

## Finalisation of GS 002 Revision

9. A further draft of the revised GS 002 was provided to SNACC members in early August 2025 for feedback via email or at the September 2025 SNACC meeting. Comments were received from SNACC members from Deloitte, EY, Grant Thornton and CA ANZ. Discussions were held at the SNACC meeting to finalise amendments to the draft revised GS 002.
10. The main changes to GS 002 are:
  - a) Covering the application of ASAE 3150 *Assurance Engagements on Controls* for the limited assurance work required by APRA SPS 310 paragraph 22(b)(ii) (as noted in para 5(b)(ii) of the revised GS 002). ASAE 3150 is an Australian specific standard that has no IAASB equivalent. Applying ASAE 3150 under GS 002 was previously only covered in footnote 8 on page 9 of ASAE 3150 (extant GS 002 was issued in 2014 and ASAE 3150 was first issued in 2015). While of concern to one large firm participant in the SNACC, APRA's requirement for limited assurance on operating effectiveness of controls is allowed for under ASAE 3150 and was supported by another large firm participant in the SNACC. See revised GS 002 paragraphs 7(e), 46, 90-110.
  - b) Updating for CPS 230 which is applicable from 1 July 2025, replacing SPS 231 *Outsourcing* and SPS 232 *Business Continuity Management*. SPS 220 which covers the requirements for RSE licensee to have a Risk Management Framework and have this assured under SPS 310, has not been updated by APRA to specifically refer to CPS 230. See revised GS 002 paragraphs 57 and 111-116.
  - c) Covering the new requirement in SPS 114 for the RSE licensee to implement satisfactory internal audit procedures and external audit arrangements to ensure compliance with, and the adequacy and effectiveness of the Operational Risk Financial Requirement (ORFR) strategy. The RSE licensee determines whether internal audit or external audit performs the work. Previously, the external auditor was not required to express a limited assurance conclusion on the adequacy or effectiveness of the ORFR strategy under the criteria set out in SPS 114 and whether the RSE licensee had complied with the policies, procedures and strategy contained within the ORFR strategy. An ORFR reserve appears in the audited financial report. See revised GS 002 paragraphs 117-119.
  - d) The section on special purpose engagements in SPS 310 has been removed (see paragraphs 138-147 of extant GS 002) primarily because they just restated the requirements in SPS 310. These requirements still apply under the revised SPS 310.
  - e) Adding a new Appendix 1 *Risk identification and assessment* on considerations for financial reporting given that a number of APRA forms upon which SPS 310 requires assurance contain financial report summaries and information. Appendix 1 also refers to SPS 114 and Reporting Standard SRS 114.1 *Operational Risk Financial Requirement* which is required to be subject to reasonable assurance under SPS 310.
  - f) Removing the former Appendix 1 of extant GS 002 that repeated the SPS 310 requirements and the references to AUASB Standards already covered in GS 002, as well as the former Appendix 2 containing an example engagement letter.
11. The revised draft GS 002 (Agenda Paper 3.1) is the same as the version presented to the December 2025 SNACC meeting (other than correcting a few minor typos). SNACC members suggested no

further changes to this version. The delay in bringing this paper to the Board was due to the unplanned absence of the Office of the AUASB staff working on the project.

## **International alignment and collaboration with NZAuASB**

12. GS 002 is Australian-specific and there is no IAASB or NZAuASB equivalent.

## **Next steps**

13. Subject to the AUASB approving proposed GS 002, any changes required by the AUASB and any minor typographical changes, the final guidance statement will be released.

## **Materials presented**

| <b>Agenda Paper</b> | <b>Description</b>                           |
|---------------------|--|
| 3.1                 | Revised draft GS 002 (Clean)                 |
| 3.2                 | Revised draft GS 002 (Marked-up from extant) |

**GS 002**

(.... 2026)

**Guidance Statement GS 002**  
*Audit Implications of Prudential Reporting  
Requirements for Registrable  
Superannuation Entities*

Issued by the Auditing and Assurance Standards Board



**Australian Government**

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**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Guidance Statement**

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of, a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

**CONTENTS**

*Paragraphs*

**Authority Statement**

**Application** .....1

**Issuance Date** .....2

**Introduction** ..... 3-7

**Definitions** .....8

**Communication with APRA**..... 9-10

**APRA Prudential Requirements**

**Obligations of RSE Licensees**

Auditor’s Reports ..... 11-13

Responsibility to Keep Auditor Informed ..... 14-18

Risk Management Declaration ..... 19-20

Those Who May Conduct the Reasonable and Limited Assurance Engagements ..... 21-22

Role and Responsibilities of the RSE Auditor ..... 23-28

**Agreeing the Terms of Engagement** ..... 29-32

**Planning the Annual Reporting Engagement**

Materiality ..... 33-46

Identifying and Assessing the Risks of Material Misstatement or Compliance Breach..... 47-48

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures..... 49-52

Understanding the Entity and its Environment ..... 53-59

Internal Audit ..... 60-61

**Report on Reasonable Assurance Requirements by the RSE Auditor**

Reporting Requirements..... 62

Reasonable Assurance on Historical Financial/APRA Information>Returns (ASA 805) ..... 63-72

Reasonable Assurance on Compliance (ASAE 3100 or ASAE 3000)..... 73-80

**Report on Limited Assurance Requirements by the RSE Auditor**

Reporting Requirements..... 81

Inherent Limitations of Limited Assurance..... 82-84

Limited Assurance on APRA Information/ Returns (ASRE 2405)..... 85-89

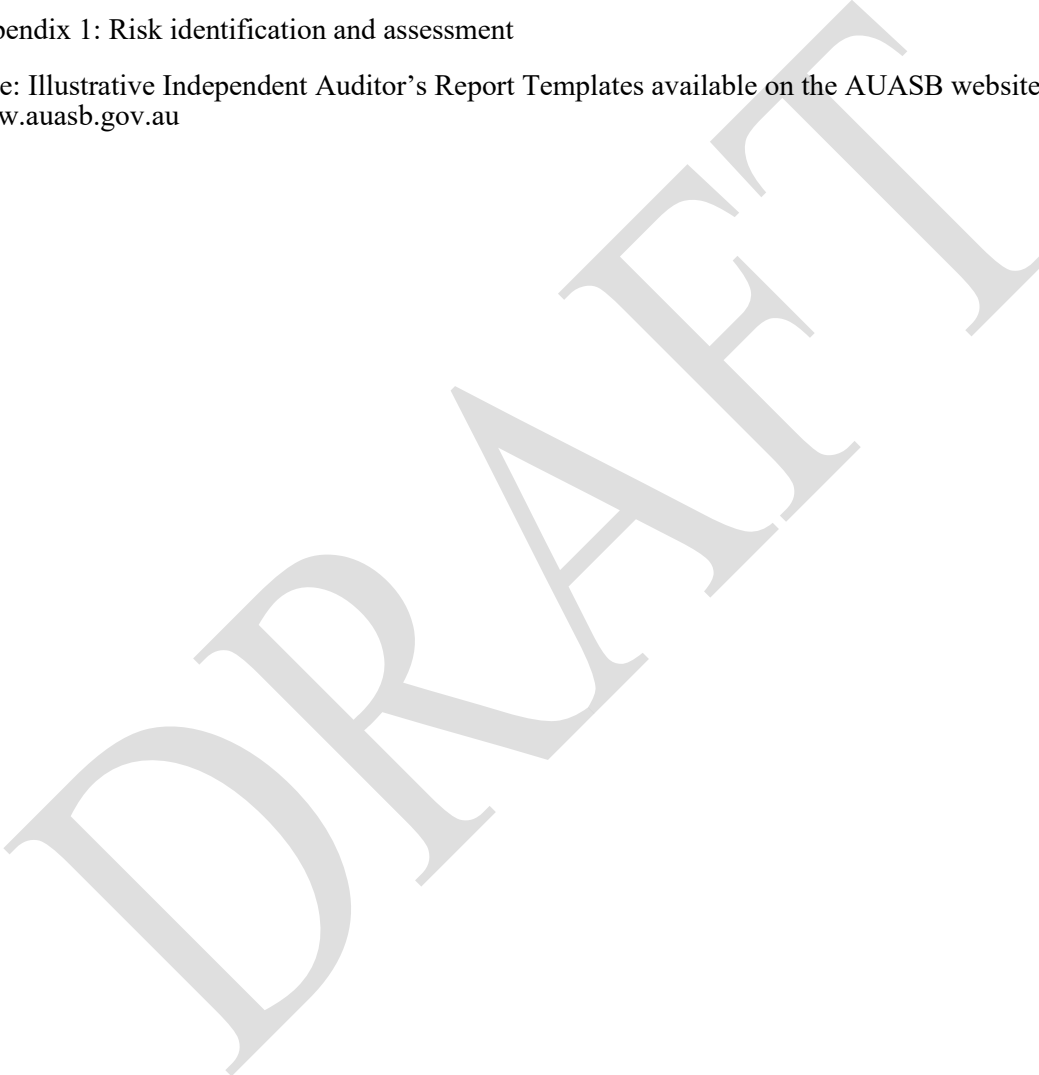
**Guidance Statement GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities***

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Limited Assurance on Compliance (ASAE 3100 and ASAE 3000) ..... 90-116  
Operational Risk Financial Requirement (ORFR) Strategy (SPS 114)..... 117-119  
**Format of Reporting Requirements**..... 120-121  
**Written Representations** ..... 122-123  
**Communication** ..... 124-130  
**Other Reporting Responsibilities**..... 131-133

Appendix 1: Risk identification and assessment

Note: Illustrative Independent Auditor’s Report Templates available on the AUASB website [www.auasb.gov.au](http://www.auasb.gov.au)



**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: xx xxxx 2026

D Niven  
Chair - AUASB

## GUIDANCE STATEMENT GS 002

### *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities*

#### Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors of Registrable Superannuation Entities (RSEs), reporting pursuant to the prudential reporting requirements specified by APRA in its Superannuation Prudential Standard SPS 310 *Audit and Related Matters* (June 2024) (SPS 310).

#### Issuance Date

2. This Guidance Statement is issued on xx XXX 2026 by the AUASB and replaces GS 002 *Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities* issued in January 2014.

#### Introduction

3. Under the *Superannuation Industry (Supervision) Act 1993* (SIS Act), APRA is responsible for the prudential supervision and monitoring of prudential matters relating to all RSEs in order to protect the interests of members and beneficiaries or prospective members.
4. APRA formulates, promulgates and enforces prudential policy and practice through Superannuation Prudential Standards (SPSs). In addition, APRA may also issue non enforceable Superannuation Prudential Practice Guides (SPGs) and other guidelines, to assist RSEs in complying with the requirements in its Prudential Standards and, more generally, to outline prudent practices in relation to certain elements of the RSEs operations.<sup>1</sup>
5. The RSE auditor is required to report pursuant to the prudential reporting requirements specified by APRA in SPS 310 paragraph 22 as outlined below:
  - (a) reasonable assurance addressing:
    - (i) the information, relating to each RSE, required under the reporting standards made by APRA under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act) that are identified in Attachment A to SPS 310 as requiring reasonable assurance; and
    - (ii) compliance with the legislative provisions that are identified in Attachment B to SPS 310 and any additional conditions APRA has imposed on the RSE licensee's RSE licence under section 29EA of the SIS Act; and
    - (iii) the annual financial statements for each RSE that is a small APRA fund (SAF), prepared in accordance with relevant Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB).
  - (b) limited assurance addressing:
    - (i) the information, relating to each RSE, required under the reporting standards made by APRA under the FSCOD Act that are identified in Attachment A to SPS 310 as requiring limited assurance; and

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<sup>1</sup> Access to APRA Prudential Standards, Prudential Practice Guides and legislation relevant to RSEs is available on APRA's website ([www.apra.gov.au](http://www.apra.gov.au))

- (ii) the RSE licensee's systems, procedures and internal controls that are designed to ensure that the RSE licensee has complied with all applicable prudential requirements, has provided reliable data to APRA as required under the reporting standards made under the FSCOD Act, and has operated effectively throughout the year of income; and
  - (iii) the RSE licensee's compliance with its Risk Management Framework (RMF).<sup>2</sup>
- 6. This Guidance Statement provides guidance for each element of the assurance engagements under SPS 310, other than the audit of small APRA fund financial reports. This Guidance Statement does not focus on the audit of the financial report of the RSE under Chapter 2M of the *Corporations Act 2001* (Corps Act), for which mandatory requirements and explanatory guidance are provided in the Australian Auditing Standards. However, the auditor should ensure that the information required by APRA reporting forms SRF 320.0 and SRF 330.0 is consistent with those audited financial reports. Appendix 1 also outlines industry specific matters that may be considered by the auditor as part of their risk identification and assessment for audits of RSE financial reports under Chapter 2M of the Corps Act and the audit of small APRA funds and individual member approved deposit funds under SPS 310.
- 7. In addition to the legislative and regulatory requirements imposed on RSE auditors, relevant AUASB Standards apply to engagements under the prudential standards. This Guidance Statement has been developed to clarify how the RSE auditor meets their regulatory obligations whilst also applying the requirements of:
  - (a) *ASA 805 Special Considerations - Audits of Single Financial Statements and Specific, Elements, Accounts or Items of a Financial Statement*, when conducting assurance engagements on subject matters of a single financial statement and specific elements, accounts or items of a financial statement, which includes assurance engagements under SPS 310 paragraph 22(a)(i).
  - (b) *ASAE 3100 Compliance Engagements*, when conducting assurance engagements regarding compliance with legislative or regulatory requirements as outlined under SPS 310 paragraph 22(a)(ii) and (iii).
  - (c) *ASRE 2405 Review of Historical Financial Information Other than a Financial Report*, when conducting assurance engagements on specific elements, components, accounts or items of a historical financial report, which includes assurance engagements as outlined under SPS 310 paragraph 22(b)(i).
  - (d) *ASAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information*, when conducting assurance engagements on subject matters other than historical financial information or sustainability information, which includes assurance engagements as outlined under SPS 310 paragraphs 22(a)(ii), 22(b)(ii), (iii);
  - (e) *ASAE 3150 Assurance Engagements on Controls*, when conducting assurance engagements regarding compliance with systems, procedures and internal controls as outlined under SPS 310 paragraph 22(b)(ii).

## **Definitions**

- 8. For the purposes of this Guidance Statement, the following items have the meanings attributed below:
  - (a) **APRA Reporting Form** means a form used for the collection and reporting of information in relation to the RSE licensee, as required to be provided to APRA by the

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<sup>2</sup> Refer to Prudential Standard SPS 220 *Risk Management* for the requirement for the RSE licensee to have a risk management framework.

RSE licensee in accordance with APRA Reporting Standards made under the *Financial Sector (Collection of Data) 2001* (FSCOD Act).

- (b) Assurance engagement means an engagement in which the RSE auditor aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).
- (c) Internal control is defined in ASAE 3150 and generally encompasses the following components:
  - (i) the control environment;
  - (ii) the RSE licensee's risk assessment process;
  - (iii) information systems, including the related business processes, relevant to financial and prudential reporting, and communication;
  - (iv) control activities; and
  - (v) monitoring of controls.

The way in which internal control is designed and implemented varies depending on the RSE licensee's size and complexity.

- (d) RSE auditor means an independent auditor appointed by the RSE licensee under the Corps Act. The RSE auditor can be an individual RSE auditor, an RSE audit firm or an RSE audit company. An RSE can only have one auditor (s324AA(2) of the Corps Act) and the individual auditor or lead auditor must be a registered company auditor (s324BA and s324AF of the Corps Act).
- (e) Limited assurance, is defined in accordance with the AUASB's *Framework for Assurance Engagements*.
- (f) Prudential requirements include requirements imposed by the:
  - (i) SIS Act;
  - (ii) *Superannuation Industry (Supervision) Regulations 1994*;
  - (iii) prudential standards made under the SIS Act;
  - (iv) reporting standards;
  - (v) reporting standards made under the FSCOD Act;
  - (vi) conditions on the RSE licensee's licence; and
  - (vii) any other requirements imposed by APRA in writing.
- (g) Reasonable assurance, is defined in accordance with the AUASB's *Framework for Assurance Engagements*.
- (h) RSE under section 10(1) of the SIS Act means:
  - (i) a regulated superannuation fund; or
  - (ii) an approved deposit fund; or
  - (iii) a pooled superannuation trust;but does not include a self-managed superannuation fund.

## **Communication with APRA**

9. Under Prudential Standard SPS 510 *Governance*, the RSE licensee is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors (or other parties) from communicating with APRA.
10. Under section 130A of the SIS Act, the RSE auditor may give to APRA information about the entity or a trustee of the entity obtained in the course of, or in connection with the performance of the audit, if the RSE auditor considers that giving the information will assist APRA in performing its functions under the SIS Act, regulations, prudential standards, FSCOD Act or the *Financial Accountability Regime Act 2023*.

## **APRA Prudential Requirements**

### **Obligations of RSE Licensees**

#### **Auditor's Reports**

11. The RSE licensee is required to submit to APRA or ASIC all reports required to be prepared by the RSE auditor in accordance with the prudential requirements and within the time specified in SPS 310.
12. Subject to paragraph 13 below, where the RSE licensee has more than one RSE within its business operations, the RSE licensee must ensure that the RSE auditor completes a separate auditor's report for each RSE.
13. Where the RSE licensee's business operations include one or more SAFs, the RSE licensee may engage the RSE auditor to prepare a single auditor's report covering some or all of those SAFs, provided that the RSE meets the requirements as set out in SPS 310 in relation to:
  - (a) its Risk Management Strategy (RMS);
  - (b) each SAF is individually audited;
  - (c) the RSE auditor's report is unmodified; and
  - (d) the RSE licensee provides APRA with a listing of all SAFs covered by the single RSE auditor's report.

#### **Responsibility to Keep Auditor Informed**

14. Under paragraph 11 of SPS 310, the RSE licensee must use all reasonable endeavours to assist the RSE auditor in being fully informed of all APRA Prudential Requirements applicable to the RSE licensee. This may include the RSE licensee making the RSE auditor aware of any changes in the RSE licensee's business operations that may impact the scope of any assurance engagements under SPS 310.
15. Under paragraph 12 of SPS 310, the RSE licensee must ensure that the RSE auditor has access to all relevant data, information, reports and staff in respect of the RSE licensee's business operations, that the RSE auditor reasonably believes is necessary to fulfil their responsibilities. This includes access to the Board of the RSE licensee, including all relevant Committees that include the Board Audit Committee, Valuation Committee, and Risk Committees and the internal auditors where required.
16. In particular, the RSE licensee is required to provide the RSE auditor with access to their RMF documents, as outlined in SPS 220 *Risk Management*, including the annual Risk Management Declaration as approved and signed by Those Charged with Governance (TCWG)<sup>3</sup>, and

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<sup>3</sup> An RSE licensee is a constitutional corporation, body corporate, or group of individual trustees, that hold an RSE licence granted by APRA under section 29D of the SIS Act. TCWG may therefore be the individual trustees or the directors of a corporation or body corporate.

forwarded to APRA by the RSE licensee. In practice, this declaration may only be available immediately prior to the RSE auditor completing their audit.

17. Under section 35AB(1) of the SIS Act, the RSE auditor can request, in writing from the trustees of the RSE a document that is relevant to the preparation of their report. Each trustee of the RSE must ensure the document is given to the RSE auditor within 14 days of the request being made.
18. The RSE auditor outlines the RSE licensee's responsibilities to keep the RSE auditor informed clearly in the engagement letter<sup>4</sup> and also requests management of the RSE licensee to sign an appropriate representation letter<sup>5</sup> (refer paragraphs 122 and 123).

### **Risk Management Declaration**

19. Under SPS 220, the RSE licensee is required to submit to APRA, at the same time as lodging the annual information under FSCOD Act, a declaration on risk management. This declaration includes but is not limited to, statements by the RSE licensee on:
  - (a) the reliability of financial information lodged with APRA;
  - (b) the adequacy of the systems in place to ensure compliance with APRA prudential requirements including the RMS;
  - (c) systems and resources are in place for managing and monitoring risks, and the RMF is appropriate to the RSE licensee's business operations;
  - (d) adequate reporting systems and internal controls supporting the preparation and reporting of accurate financial and statistical information to APRA;
  - (e) the effectiveness of the RSE licensee's processes and systems surrounding the production of financial information.

Refer to SPS 220 Attachment A for further information in relation to the RSE licensee's Risk Management Declaration.

20. The RSE auditor is not required to form an opinion on the RSE licensee's Risk Management Declaration other than in the context of the RSE auditor's responsibility to express an opinion or a conclusion in accordance with the responsibilities and reporting requirements of SPS 310.

### **Those Who May Conduct the Reasonable and Limited Assurance Engagements**

21. As outlined in paragraph 14 of SPS 310, the RSE licensee must ensure that an RSE audit firm or an RSE audit company:
  - (a) is not disqualified under section 130EA of the SIS Act; and
  - (b) satisfies the independence requirements in Prudential Standard SPS 510 on *Governance*.
22. As outlined in paragraph 13 of SPS 310, the RSE licensee must ensure that an individual RSE auditor or a lead auditor:
  - (a) is not disqualified under section 130D of the SIS Act;
  - (b) satisfies the eligibility criteria in Prudential Standard SPS 520 *Fit and Proper* (SPS 520) as applicable to the RSE auditor;

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<sup>4</sup> The RSE auditor has regard to the requirements and guidance provided in ASA 210 *Agreeing the Terms of Audit Engagements* when completing the engagement letter.

<sup>5</sup> The RSE auditor has regard to the requirements and guidance provided in ASA 580 *Written Representations* when requesting this letter.

- (c) is a fit and proper person in accordance with the RSE licensee's Fit and Proper Policy as required by SPS 520; and
- (d) satisfies the auditor independence requirements in SPS 510.

As such, the RSE auditor will need to provide information to the RSE licensee to assist the RSE licensee to adhere to this requirement.

### **Role and Responsibilities of the RSE Auditor**

23. The role and responsibilities of the RSE auditor under SPS 310 will include at a minimum, reporting in an auditor's report:
- (a) a reasonable assurance opinion on the requirements in SPS 310 paragraph 22(a)(i), (ii) and (iii); and
  - (b) a limited assurance conclusion on the requirements in SPS 310 paragraph 22(b)(i), (ii) and (iii).

These requirements are discussed in paragraph 5 of this Guidance Statement.

24. In addition, APRA may require in writing that the RSE auditor to undertake a special purpose engagement in relation to a particular aspect of the RSE licensee's business operations, compliance with prudential requirements or RMF.
25. The RSE auditor also has certain obligations and responsibilities under Division 2 of Part 16 of the SIS Act to report to the RSE licensee and APRA in certain circumstances. Refer to paragraphs 38 and 39 of this Guidance Statement.
26. The RSE auditor is required to modify the opinion in their auditor's report for breaches of any provisions which, in the RSE auditor's professional judgement, are material. In forming an opinion as to whether a breach is material, the RSE auditor refers to relevant AUASB standards.
27. When preparing a report required under the SIS Act or SPS 310 (whether as part of a routine or special purpose engagement) the auditor must:
- (a) do so on the basis that APRA may rely upon the report in the performance of its functions under the SIS Act; and
  - (b) exercise independent judgement and not place sole reliance on work performed by APRA.
28. SPS 310 requires the RSE auditor to retain all working papers and other documentation in relation to an engagement under that Prudential Standard for a period of at least seven years after the end of year of income. APRA may require the RSE auditor to provide the working papers and other documentation to APRA.

### **Agreeing the Terms of Engagement**

29. The RSE auditor and the RSE licensee agree on the terms for each discrete engagement as outlined under SPS 310, paragraph 22. Such terms may be detailed in one engagement letter or other suitable form of written contract. The RSE auditor has regard to ASA 210 *Agreeing the Terms of Audit Engagements* when agreeing the terms of the engagement with the RSE licensee.
30. While the appointment of the RSE auditor may cover more than one year of income, the RSE auditor should confirm the terms of the engagement annually.
31. The engagement letter should confirm that TCWG of the RSE licensee are aware of the RSE auditor's obligations referred to in SPS 310 and of the implications for confidentiality and restriction of distribution of the auditor's report beyond those users for which the RSE auditor reports were primarily prepared being the RSE licensee and APRA. The engagement letter

should refer to the responsibility of TCWG of the RSE licensee to establish and maintain effective internal controls to meet its APRA reporting requirements.

32. The engagement letter explains that any special purpose engagement of specific matters relating to the RSE licensee's business operations, compliance with prudential requirements or the RSE licensee's RMF, will constitute a separate engagement(s) that will be the subject of a separate engagement letter(s).

## **Planning the Annual Reporting Engagement**

### **Materiality**

33. The auditor considers materiality, in accordance with the requirements of AUASB Standards applicable to each section of the assurance engagement, when planning and performing the engagement. During the engagement the RSE auditor re-assesses materiality if matters come to their attention that indicate that the basis on which materiality was assessed has changed.

### *Reasonable and/or Limited Assurance on APRA Reporting Returns*

34. In applying ASA 320, ASA 805 and ASRE 2405, as appropriate, to individual APRA reporting forms, the auditor has regard to the nature, purpose and use of the information included in each reporting form. The collection and analysis of data in specified reporting forms is a critical component of APRA's supervisory function. APRA collects data from RSEs (and other APRA-regulated entities) for a broad range of reasons some of which may include:
- (a) evaluating compliance with prudential requirements (e.g. meeting Operational Risk Financial Requirement (ORFR) target amounts and tolerance limit requirements);
  - (b) understanding the operations of the entity and the industry;
  - (c) identifying emerging issues in both the entity and the industry;
  - (d) passing on data to other government agencies; and
  - (e) providing information on the finance sector to research organisations and the general public.
35. The RSE auditor determines:
- (a) materiality for the report or application as a whole and, if appropriate, materiality for particular classes of accounts or disclosures, for assessing misstatements; and
  - (b) performance materiality, for assessing the risks of material misstatement and determining the nature, timing and extent of further procedures.
36. Materiality is to be addressed in the context of the RSE's objectives relevant to the particular prudential standards being examined and whether the internal controls will reduce to an acceptable level the risks that threaten achievement of those objectives. These objectives are developed having regard to the protection of the interests of the members and beneficiaries as a whole and prospective members of the RSE. AASB Practice Statement 2 *Making Materiality Judgements* may provide useful guidance to the RSE auditor with regard to matters likely to adversely affect the interests of members including relating to solvency and going concern assumptions.

### *Reasonable Assurance on Compliance*

37. APRA expects the RSE auditor to consider each compliance requirement contained in paragraph 22(a)(ii) of SPS 310 individually when applying materiality considerations to form an audit opinion.
38. Where the RSE auditor identifies any instance whereby the requirements of paragraph 22(a)(ii) of SPS 310 or any other requirement of the law referred to in section 129

of the SIS Act has been contravened or is being contravened or is likely to be contravened, under the SIS Act the RSE auditor is required to communicate that non-compliance to a trustee of the RSE in writing. If the contravention may affect the interests of members or beneficiaries of the RSE, then the RSE auditor is required under the SIS Act to report that instance of non-compliance to APRA.<sup>6</sup>

39. Where the trustees of the RSE licensee are already aware of the matter or instance of non-compliance, the RSE auditor is not required under the SIS Act to report the matter or instance to a trustee of the RSE. The RSE auditor need not report the matter to APRA where the RSE auditor reasonably concludes that another RSE auditor or actuary has already appropriately communicated the non-compliance to APRA<sup>7</sup>.
40. Matters or instances of non-compliance under section 129 of the SIS Act refer not only to past and present matters or instances but also reasonably possible future matters or instances that the RSE auditor may become aware of whilst conducting an audit or review for which they are engaged during any year of income.
41. The RSE auditor exercises professional judgement in considering materiality appropriate to the RSE's circumstances, having regard to their obligations, the purpose and terms of the specific engagement, together with the size, business mix and complexity of the RSE's business operations.
42. When considering materiality in relation to compliance, both quantitative factors, that is the magnitude of the amounts, the period of time between the required time for compliance and actual fulfilment of the requirement, whether the matter is part of a systemic issue and qualitative factors, such as how the information will be used, are taken into account by the RSE auditor.

#### *Limited Assurance on Internal Controls and Compliance*

43. Material deficiencies in the design and implementation of controls and material deviations in the operating effectiveness of controls are those which could reasonably be expected to influence relevant decisions of the intended users.
44. In accordance with ASAE 3150 the RSE auditor shall identify a control objective relevant to the scope of the engagement, and whether the internal controls will reduce to an acceptably low level, based on auditor judgement, the risks that threaten achievement of those objectives.
45. In assessing materiality, the RSE auditor has regard to the measures the RSE licensee has adopted to ensure:
  - (a) compliance with all applicable Prudential Requirements;
  - (b) reliable data is provided to APRA in all APRA Reporting Forms and as required under the reporting standards made under the FSCOD Act; and
  - (c) their operating effectiveness throughout the year of income.
46. ASAE 3100 and ASAE 3150 set out the requirements and provides guidance to the RSE auditor in applying materiality in the context of a compliance engagement and an assurance engagement on controls. ASAE 3150 requires the RSE auditor to reassess the materiality of the controls if matters come to their attention during the engagement which indicate that the basis on which the materiality of those controls was determined has changed.

#### **Identifying and Assessing the Risks of Material Misstatement or Compliance Breach**

47. When identifying and assessing risks of material misstatement or compliance breach as a basis for designing and performing further assurance procedures, the RSE auditor does so at the

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<sup>6</sup> Refer to section 129 of the SIS Act.

<sup>7</sup> Refer to section 129(3A)(b) of the SIS Act.

reporting standard level or the individual compliance requirement level, and for reasonable assurance engagements, also at the assertion level for material classes of transactions, accounts, disclosures or compliance matters.

48. Factors impacting the risk assessment for engagements under SPS 310 may include:
- (a) the reliability of the reporting systems;
  - (b) the risk culture of the RSE licensee;
  - (c) the adequacy of systems and controls to identify, assess, manage, mitigate and monitor material risks;
  - (d) history of non-compliance by the RSE licensee;
  - (e) reported concerns regarding the RSE licensee as communicated by APRA;
  - (f) the estimation and uncertainty inherent in the measurement methodologies applied by the RSE licensee with respect to aspects such as valuation of assets, expenses and revenue from superannuation activities;
  - (g) any bias inherent in the measurement methodologies adopted by the RSE;
  - (h) level of change in the RSE licensee's business operation's or environment.

#### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

49. The RSE auditor designs and performs further assurance procedures which are responsive to assessed risks of material misstatement or material compliance breach. The assurance procedures performed on any particular engagement is a matter of professional judgement and the nature, timing and extent of procedures will vary widely due to the different circumstances of each engagement. The RSE auditor chooses a combination of assurance procedures, which may include: inspection, observation, confirmation, recalculation, re-performance, analytical procedures and enquiry. Irrespective of the assessed risks of material misstatement or material compliance breach, the RSE auditor designs and performs test of details for each material source of accounts, class of transaction, disclosures or compliance matter. In designing these tests the RSE auditor needs to consider the risks of material understatement, particularly with respect to immaterial amounts reported, or risk of material omission.

#### *Work Effort for a Limited versus Reasonable Assurance Engagement*

50. ASAE 3000 clearly differentiates between the work which is required to be conducted for limited versus reasonable assurance engagements. The nature, timing and extent of evidence gathering procedures which are conducted in any given circumstance is a matter of professional judgement and is determined in response to the RSE auditor's determination of materiality, the risk assessment and the results of the procedures conducted in response to assessed risks. As the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the RSE auditor will perform will vary in nature and timing from and will be less in extent than for a reasonable assurance engagement. In a limited assurance engagement procedures primarily involve enquiries and analytical procedures and less emphasis on tests of controls.
51. Although procedures in a limited assurance engagement will be more limited in nature, timing and extent than for a reasonable assurance engagement, ASAE 3000, ASAE 3100<sup>8</sup> and ASAE 3150 require additional procedures to be conducted if the RSE auditor becomes aware of a matter which causes them to believe the subject matter may be materially misstated or there may be a material compliance breach, a material control deficiency or a material control deviation. The RSE auditor may conduct procedures more akin to a reasonable assurance

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<sup>8</sup> See ASAE 3100, paragraph 40.

engagement on this particular matter in order to satisfy themselves that either the subject matter is not likely to be materially misstated or non-compliant, or that there is not likely to be a material control deficiency or deviation.

52. In a reasonable assurance engagement, procedures will include tests of controls as well as tests of detail. When conducting a reasonable assurance engagement, if the RSE auditor is able to obtain evidence that the controls they wish to rely on are operating effectively, then the nature, timing and extent of tests of details may be reduced or modified. If reliance is to be placed on the operating effectiveness of controls throughout the period, then testing will need to cover that period. Alternatively, if the identified controls are not operating effectively, then the nature, timing or extent of tests of details will need to be increased or modified.

### **Understanding the Entity and its Environment**

53. ASA 805, ASA 315, ASRE 2405, ASAE 3000 and ASAE 3100<sup>9</sup> require the RSE auditor to obtain an understanding of the entity and its environment and identify and assess the risk of material misstatement or compliance breach in order to plan the engagement. In gaining this understanding, the RSE auditor can draw on knowledge gained as part of the annual financial statement audit<sup>10</sup>, however this understanding would need to be updated<sup>11</sup> and broadened to meet the requirements of an SPS 310 engagement. ASAE 3100<sup>12</sup> provides a list of matters to be considered by the RSE auditor in understanding the entity and the compliance framework. It is likely the RSE auditor will conduct the following procedures in obtaining that increased understanding and assessing risk: enquiries, analytical procedures and observation and inspection.
54. For a limited assurance engagement, the RSE auditor does not normally develop the depth of understanding of internal controls as is required in a reasonable assurance engagement and so gaining that understanding may be limited to enquiries.
55. The assessment of risk is directed at identifying those risks that may result in either the subject matter being materially misstated, or, for a compliance engagement, the existence of material breaches of the relevant requirements.

#### *Considerations relating to the RSE Licensee using a service organisation*

56. In auditing the RSE licensee, it is likely that the RSE auditor will consider service organisations providing services to the RSE licensee such as administration and custody. Such organisations typically provide Type 1 or Type 2 service organisation auditor's report under ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.
57. In accordance with ASA 402 and ASA 315, the RSE auditor would obtain an understanding of the following, including the relevant requirements of CPS 230 *Operational Risk Management*:
- (a) the nature of the services provided by the service organisation and the significance of those services to the RSE licensee, including the effect thereof on the RSE licensee's internal controls;
  - (b) the nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;
  - (c) the degree of interaction between the activities of the service organisation and those of the RSE licensee;

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<sup>9</sup> See ASAE 3100, paragraph 31.

<sup>10</sup> See ASA 805, paragraphs 7-8.

<sup>11</sup> See ASRE 2405, paragraphs 26-27.

<sup>12</sup> See ASAE 3100, paragraph A30.

- (d) the nature of the relationship between the RSE licensee and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation; and
  - (e) the design and implementation of relevant controls at the RSE licensee that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation.
58. Where audit evidence over relevant assertions is to be obtained from either a Type 1 or Type 2 service organisation auditor's report under ASA 402, the RSE auditor needs to:
- (a) evaluate the service auditor's professional competence and independence from the service organisation; and
  - (b) evaluate the adequacy of the standards under which the Type 1 or 2 service auditor's report is to be/was issued.
59. Where audit evidence relating to controls design, implementation and operating effectiveness is to be obtained from either a Type 1 or Type 2 service organisation auditor's report under ASA 402, the RSE auditor needs to:
- (a) determine whether complementary user entity controls identified by the service organisation are relevant to the RSE licensee; and
  - (b) to the extent they are relevant, obtain an understanding of whether the user entity has designed and implemented such controls and, if so, plan to test their operating effectiveness, as appropriate.

### **Internal Audit**

60. SPS 510 requires the RSE to have in place an independent and adequately resourced internal audit function.<sup>13</sup> SPS 510 and APRA Superannuation Prudential Practice Guide SPG 220 *Risk Management* set out the requirements and provide guidance to RSE licensee's in relation to internal audit.
61. When the RSE auditor is considering the scope and work involved in assurance engagements under SPS 310, APRA expects the RSE auditor to consider the extent to which the work of the internal audit function is likely to be relevant in the context of the engagement. By analogy, Auditing Standard ASA 610 *Using the Work of Internal Auditors* sets out the requirements and provides guidance to the RSE auditor in considering the activities of the internal audit function and evaluating the effect, if any, on audit procedures. See also ASAE 3000 paragraph 55, ASAE 3100 paragraphs 37 and 38 and ASAE 3150 paragraphs 40 to 43 and 77 to 78.

### **Report on Reasonable Assurance Requirements by the RSE Auditor**

#### **Reporting Requirements**

62. SPS 310 paragraph 22(a) states the RSE auditor's report at a minimum is required to provide:
- (a) reasonable assurance:
    - (i) on the APRA information required by reporting standards made under the FSCOD Act as outlined in Attachment A to SPS 310;
    - (ii) compliance with the legislative provisions identified in Attachment B and any additional conditions APRA has imposed on the RSE licensee's RSE license under section 29EA of the SIS Act; and

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<sup>13</sup> Under SPS 510, APRA may approve alternative arrangements where APRA is satisfied that they will achieve the same objectives.

- (iii) on the annual financial statements of each RSE that is a SAF, prepared in accordance with relevant Australian Accounting Standards issued by the Australian Accounting Standards Board.

**Reasonable Assurance on Historical Financial/APRA Reporting Forms (ASA 805)**

63. In performing the reasonable assurance engagement on the APRA Reporting Forms of the RSE, the RSE auditor is required to comply with all Australian Auditing Standards relevant to a reasonable assurance engagement of other historical financial information, adapted as necessary in the circumstances of the engagement. In applying these standards, the auditor has regard to any special considerations identified in ASA 805 that may be relevant to the engagement.

*Audit Evidence*

64. The RSE auditor obtains sufficient appropriate audit evidence<sup>14</sup> that includes:
- (a) obtaining an understanding of the specified APRA Reporting Forms and individual data items included in these returns (subject matter), the intended use of the information included in the returns by the intended users, and the prudential requirements applicable to the preparation and submission of the returns.
  - (b) obtaining an understanding of the RSE licensee's overall framework and interrelationships between prudential and reporting standards for managing risk including data risk and data quality.
  - (c) obtaining an understanding of the RSE licensee's system of internal control and the compliance function.
  - (d) evaluating the controls over the preparation and compilation of the APRA Reporting Forms.
  - (e) assessing the risk that information in the APRA Reporting Forms may be materially misstated.
  - (f) responding to assessed risks and determining the nature, timing and extent of further evidence gathering procedures.
  - (g) performing further evidence-gathering procedures clearly linked to the identified risks.
  - (h) evaluating the sufficiency and appropriateness of evidence.
65. The RSE auditor exercises professional judgement in determining the nature, timing and extent of reasonable assurance procedures to gather sufficient appropriate evidence on which to base the reasonable assurance opinion.
66. A controls based assurance approach is often the most appropriate approach to adopt in these circumstances. However, where the RSE auditor determines that a material weakness exists in the RSE licensee's internal controls designed to ensure reliable data is provided to APRA in the APRA Reporting Forms, and/or where the RSE auditor makes a determination based on effectiveness and/or efficiency, a substantive approach may be more appropriate.
67. Reasonable assurance procedures for obtaining audit evidence include, but are not limited to, testing of specific controls aimed at ensuring the data in the APRA Reporting Forms is reliable and prepared in accordance with APRA Prudential Standards and Reporting Standards. Reasonable assurance procedures may include observation, inspection, confirmation, recalculation, re-performance, analytical procedures, enquiry, obtaining independent corroborating information, testing of controls over the compilation of the APRA Reporting

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<sup>14</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to a compliance engagement.

Forms, testing of controls over the extraction of data from the underlying accounting records (including all relevant year-end adjustments) and obtaining management representations.

*Evaluation of Findings*

68. The RSE auditor accumulates uncorrected misstatements identified during the engagement, other than those that are clearly trivial, for the purpose of evaluating, whether, individually or in the aggregate, they are material to the reported information.<sup>15</sup> Materiality is to be applied in the context of paragraphs 34-47 of this Guidance Statement.
69. In evaluating whether or not the specified data in the APRA Reporting Forms, is, in all material respects, reliable and in accordance with the relevant APRA prudential and reporting standards, the RSE auditor exercises professional judgement, having regard to both the user and intended uses of the information in the APRA Reporting Forms.
70. The magnitude of a misstatement alone is only one factor used to assess the misstatement. The RSE auditor evaluates each identified misstatement in the context of information relevant to users of the APRA Reporting Form, by considering qualitative factors and the circumstances in which each misstatement has been made.
71. The RSE auditor may designate an amount below which misstatements would be clearly trivial need not be accumulated, because the RSE auditor expects that the accumulation of such amounts clearly would not have a material effect on the reported subject matter information. In doing so, the RSE auditor needs to consider the fact that the materiality of misstatements involves qualitative as well as quantitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the reported information.
72. In circumstances where the RSE auditor may conclude that information reported by the RSE licensee is not in accordance with the relevant APRA Prudential reporting standards. The RSE auditor discusses the matter with management and, depending how it is resolved, determines whether, and how, to communicate the matter in the auditor's reasonable assurance report.

**Reasonable Assurance on Compliance (ASAE 3100 and ASAE 3000)**

73. In performing the audit on the compliance requirements as specified above in paragraph 63, the RSE auditor is required to consider the requirements in ASAE 3000 and ASAE 3100.

*Audit Evidence*

74. In a compliance engagement, evidence may be gathered through enquiry and observation, tests of controls, substantive testing, and representations received from management.<sup>16</sup> The amount of evidence from each source which is assessed by the RSE auditor to constitute sufficient, reliable evidence to reduce compliance engagement risk to an acceptable level is a matter for the RSE auditor's professional judgement.
75. In a compliance engagement, sufficient appropriate evidence is obtained which involves:
  - (a) obtaining an understanding of the RSE licensee's business operations and its compliance environment which includes the key elements of the entity's compliance framework;
  - (b) obtaining an understanding of the prudential requirements, and other engagement circumstances which, includes obtaining an understanding of internal controls over the

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<sup>15</sup> See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraphs 10 and 11.

<sup>16</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence* and may be helpful in determining the evidence applicable to a compliance engagement.

preparation of the subject matter, evaluation of design, implementation and testing the effectiveness of controls that are relevant to the engagement;

- (c) obtaining an understanding of the internal compliance function where appropriate and any relevant testing of compliance controls performed as part of that function during the period. Evaluating the results of this testing and the level of reliance that can be placed on this work and the impact on further control and substantive procedures;
- (d) based on the understanding acquired under (a), (b) and (c), assessing the risks that the RSE licensee may be non-compliant with requirements as specified under SPS 310;
- (e) responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures; and
- (f) performing further evidence gathering procedures clearly linked to the identified compliance engagement risks, using a combination of inspection, observation, confirmation, recalculation, reperformance and enquiry. Such further evidence gathering procedures may involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the activity or subject matter, tests of the operating effectiveness of controls.

76. In a compliance engagement the RSE auditor normally performs a combination of evidence gathering procedures that reflect a strategy to obtain planned levels of assurance from testing of the compliance framework, controls and substantive testing. It is unlikely that sufficient assurance may be obtained from only performing one type of testing. The type and extent of these procedures will be based on the complexity of the RSE licensee, nature of the business operations and initial risk assessment. The types of procedures that may be undertaken are:

- (a) walk throughs and controls testing in key risk areas;
- (b) substantive testing; and
- (c) enquiries of management and representations.

The results of the above testing are evaluated by the RSE auditor to ensure the evidence gathered is sufficient and appropriate for the purposes of the reasonable assurance engagement.

#### *Evaluation of Findings*

77. Where the RSE auditor becomes aware of material deficiencies in the RSE licensee's compliance framework they assess the impact on the risk of non-compliance with the prudential requirements as specified in SPS 310, and the implication for planning and performing the engagement.

78. If the RSE auditor becomes aware of material deficiencies in the compliance framework for example:

a limited or inadequate monitoring plan for key compliance controls over the period; and/or  
a lack of staff training and awareness of the need to identify, assess and report compliance breaches

the RSE auditor needs to consider the following implications:

- (a) risk of non-compliance being increased;
- (b) amount and type of evidence gathering procedures to obtain sufficient appropriate evidence; and
- (c) reporting of material deficiencies to the responsible party and the intended users.

79. The RSE auditor will evaluate any compliance breach with the prudential requirements to determine if the breach is material, and how this may impact on the RSE auditor's planned engagement approach.
80. The RSE auditor normally considers the following factors in evaluating if a breach of the compliance requirements by the entity, is material:
- (a) size, complexity and nature of the entity's activities;
  - (b) nature of the breach – one off or systemic;
  - (c) evidence of a robust compliance framework in place to detect, rectify and report compliance breaches;
  - (d) commonly accepted practice within the relevant industry;
  - (e) regulatory, legislative or contractual requirements;
  - (f) impact on the decisions of the intended users and stakeholders of the entity; and
  - (g) specific terms of the compliance engagement.

## **Report on Limited Assurance Requirements by the RSE Auditor**

### **Reporting Requirements**

81. SPS 310 paragraph 22(b) states the auditor's report at a minimum is required to provide:
- (a) limited assurance on:
    - (i) the APRA information required by reporting standards made under the FSCOD Act as outlined in Attachment A to SPS 310;
    - (ii) the RSE licensee's systems, procedures and internal controls that are designed to ensure that the RSE licensee has complied with all applicable prudential requirements, has provided reliable data to APRA as required under the reporting standards prepared under the FSCOD Act, and has operated effectively throughout the year of income; and
    - (iii) the RSE licensee's compliance with its RMF<sup>17</sup>.

### **Inherent Limitations of Limited Assurance**

82. As stated in ASAE 3000, the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the RSE auditor performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.
83. There are inherent limitations in any internal control structure. Furthermore, fraud, error or non-compliance with laws and regulations may occur and not be detected. As the systems, procedures and controls to ensure compliance with APRA Prudential Requirements are part of the RSE's operations, it is possible that either the inherent limitations of the internal control structure, or weaknesses in it, impact on the effective operation of RSE's specific control procedures.
84. Projections of any evaluation of internal control procedures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions after the limited assurance report is signed, or that the degree of compliance may deteriorate.

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<sup>17</sup> Refer to Prudential Standard SPS 220 *Risk Management* for the requirement for the RSE licensee to have an RMF.

**Limited Assurance on APRA Information/ Returns (ASRE 2405)**

85. In performing the limited assurance procedures to report on the APRA information as specified in paragraph 82(a)(i) that incorporate historical financial information at a MySuper product level, the RSE auditor needs to consider the requirements in ASRE 2405.
86. The RSE auditor obtains evidence, as part of a dynamic and iterative process directed by the risk assessment carried out during the planning phase of the engagement. The RSE auditor exercises professional judgement in determining the specific nature, timing and extent of limited assurance procedures to gather evidence on which to base the conclusion.
87. Limited assurance procedures ordinarily include consideration of the process used to prepare APRA Reporting Forms and the specific controls aimed at ensuring the data in the APRA Reporting Forms are reliable and prepared in accordance with APRA Prudential Standards and Reporting Standards. Limited assurance procedures may include analytical procedures, enquiry, limited testing of controls over the compilation of the APRA Reporting Forms, limited testing of controls over the extraction of data from the underlying source systems and obtaining management representations.
88. If the RSE auditor has reason to believe that the historical financial information subject to limited assurance may be materially misstated, the RSE auditor shall carry out additional or more extensive procedures as are considered necessary to be able to express a limited assurance conclusion or to confirm that a modified report is required.
89. Materiality is to be applied as outlined in paragraphs 34-47 of this Guidance Statement. The RSE auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the RSE auditor's attention are material to the historical financial information.

**Limited Assurance on Compliance (ASAE 3100 and ASAE 3000)**

90. In performing the limited assurance engagement on the compliance requirements as specified in paragraph 82(a)(ii) and (iii), the RSE auditor is required to consider the requirements in ASAE 3000, ASAE 3100 and ASAE 3150 and other applicable standards on assurance engagements.

*Limited Assurance on Systems, Procedures and Internal Controls (ASAE 3000 and ASAE 3150)*

**Obtaining Evidence Regarding Design of Systems, Procedures and Controls**

91. The RSE auditor needs to determine which of the systems, procedures and controls at the RSE licensee are necessary to achieve the control objectives relating to compliance with all applicable prudential requirements, reliable data under FSCOD Act and operating effectiveness throughout the period, and whether those controls are presented in the RSE licensee's description of its reporting system or identified by the RSE auditor and whether those controls were suitably designed. Under ASAE 3150, this determination includes:
  - (a) identifying the risks that threaten the achievement of the control objectives;
  - (b) evaluating whether the controls as designed would be sufficient to mitigate those risks when operating effectively, in all material respects; and
  - (c) evaluating whether any changes in controls as designed during the period would be sufficient to mitigate those risks, in all material respects.
92. When evaluating the suitability of the design of a control, the RSE auditor considers the general understanding of the control activities as well as other components of control not within the scope of the engagement, such as knowledge of the control environment and information system, gained when planning the engagement. ASAE 3150 requires the RSE auditor at a minimum, to make enquiries of management or others within the entity regarding how the controls are designed to operate and examine the design specifications or documentation. A deficiency in the control environment could undermine the effectiveness of

controls, and this needs to be considered in assessing the suitability of the design of those controls.

#### Assessment of Design Deficiencies

93. Where the RSE auditor is unable to identify controls which are suitable or controls as designed are not suitable to achieve a control objective, if operating effectively, this may constitute a deficiency in relation to the suitability of design.
94. ASAE 3150 requires the RSE auditor to design and perform additional assurance procedures until the auditor has obtained sufficient appropriate evidence to conclude on whether the design is suitable.
95. In evaluating implementation of controls, the RSE auditor obtains sufficient appropriate evidence that the controls identified as necessary to achieving the identified control objectives, were implemented as designed as at the specified date. The auditor's evaluation of the design of controls may influence the nature, timing and extent of assurance procedures related to implementation. ASAE 3150 requires that the RSE auditor's assurance procedures include, at a minimum, making enquiries and observation. If the auditor determines that additional procedures, such as inspection of records and documentation, are required to dispel or confirm a suspicion that a material deficiency in the implementation of controls exists, the performance of such additional procedures shall not convert the engagement to a reasonable assurance engagement. When designing and performing tests of implementation, the auditor determines whether controls implemented depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the implementation of those indirect controls.

#### Obtaining Evidence of Operating Effectiveness of Controls

96. Following the evaluation of whether the RSE licensee has internal controls designed to achieve the relevant control objectives, the appointed RSE auditor performs assurance procedures to obtain evidence about whether these controls have operated as designed throughout the financial year. The RSE auditor may consider how the controls were applied, the consistency with which they were applied, by whom they applied and the period over which the controls applied.
97. In accordance with ASAE 3150, when reporting on operating effectiveness over the period, the RSE auditor tests those controls that the auditor has determined are necessary to achieve the relevant control objectives and assess their operating effectiveness throughout the period. The auditor's evaluation of the design of controls may influence the nature, timing, and extent of tests of operating effectiveness. Evidence obtained in prior engagements about the satisfactory operation of "material controls" (as defined in the standard) in the prior periods does not provide a basis for a reduction in testing of those controls, even if it is supplemented with evidence obtained during the current period.
98. Assurance procedures to obtain evidence on operating effectiveness may include discussion with RSE licensee's personnel (and obtaining written representations), observation of the system in operation, walk-through for an appropriate number of instances of material controls in operation and ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively, to identify any deviations from the specified design. The RSE auditor may also consider limited re-performance of controls.
99. Alternatively, under ASAE 3150, the results of exception reporting, monitoring or other management controls may be examined to provide evidence about the operation of the control rather than directly testing it.
100. ASAE 3150 requires the RSE auditor to apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted, which will depend on the assessed risks of material deviations in the operating effectiveness of controls. If the RSE auditor determines that additional assurance procedures are required to dispel or confirm a suspicion that a material deviation in the operating effectiveness of controls exists, the

performance of such additional procedures does not convert the engagement to a reasonable assurance engagement.

101. ASAE 3150 requires that where control procedures have changed during the period subject to examination, the RSE auditor tests the operating effectiveness of both the superseded control(s) and the new control(s) and considers whether the new controls have been in place for a sufficient period to assess their effectiveness.
102. The RSE auditor generally adopts a ‘top down’ approach in gathering evidence, by making enquiries of key personnel, observing the RSE licensee’s operations, performing ‘walk-through’ tests of controls, and inspecting relevant documentation, in order to achieve the following:
- (a) obtaining an understanding of the RSE licensee’s overall control environment and compliance framework.
  - (b) ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively.
  - (c) identifying the internal compliance function(s) designed to ensure compliance with all applicable prudential requirements.
  - (d) identifying policies, procedures and controls designed to ensure compliance with all applicable Prudential Requirements, by reviewing documents such as the RSE licensee’s RMF, RMS and similar risk management policy documents issued by the RSE licensee in accordance with applicable prudential standards.
  - (e) identifying the processes used by the Board of the RSE licensee to support its Risk Management Declaration to APRA as outlined in SPS 220.
  - (f) identifying key Board and operational matters by reviewing the minutes of the RSE licensee’s Board, as well as minutes of any sub committees responsible, for example, for oversight of compliance and audit, held during the year and enquiring about matters discussed and outcomes from the RSE licensee’s Board decisions.
  - (g) identifying the internal compliance functions designed to oversee the provision of data to APRA in the RSE licensee’s APRA Reporting Forms.
  - (h) identifying significant processes for the preparation of the RSE licensee’s APRA Reporting Forms.
  - (i) identifying the key controls over these significant processes that are designed to ensure that reliable data is provided to APRA in the RSE licensee’s APRA Reporting Forms.

The above is not an exhaustive list, nor is it intended to direct the RSE auditor as to the conclusion over the RSE licensee’s internal controls.

103. Although the RSE auditor may consider the results of any tests of the operating effectiveness of controls conducted by the internal audit function when evaluating operating effectiveness, the auditor remains responsible for obtaining sufficient appropriate evidence to support the auditor’s conclusion and, if appropriate, corroborate the results of such tests.
104. Interpretation of the word ‘reliable’ in the context of limited assurance on controls over the RSE licensee’s APRA Reporting Forms has practical limitations in some circumstances. For many RSE licensees, it is only at the financial year-end (or for RSE licensees that are disclosing entities, also at the half year-end) that all the necessary accounting adjustments, such as accruals, prepayments, provisioning and valuations, are prepared and subjected to audit or review.
105. The RSE auditor enquires about whether there were any changes in internal control, or other matters, subsequent to the financial year-end date and up to the date of the RSE auditor’s

assurance report, that may have an impact on the RSE auditor's conclusion about the effectiveness of internal controls, and obtains written representations from management relating to such matters.

106. For further requirements and guidance in relation to obtaining evidence on operating effectiveness of controls, including on the use of sampling for selecting controls for testing operating effectiveness over a period, refer to ASAE 3150.

#### Nature and Cause of Deviations in Operating Effectiveness

107. ASAE 3150 sets out the requirements and provides guidance to the RSE auditor to assist in evaluating evidence and forming a conclusion on controls.

108. In accordance with ASAE 3150, the RSE auditor accumulates uncorrected :

- (a) deficiencies in the suitability of the design of controls to achieve the relevant control objectives ;
- (b) deficiencies in the implementation of controls as designed ; and
- (c) deviations in the operating effectiveness of controls as designed.

In considering the reporting of these matters the RSE auditor has regard to the requirements in ASAE 3150.

109. The RSE auditor evaluates, individually and in aggregate, whether internal control deficiencies and deviations that have come to the auditor's attention are material. The auditor exercises professional judgement, having regard to the intended users of the auditor's assurance report. Materiality is to be applied in the context of paragraphs 34-47 of this Guidance Statement.

110. In evaluating the severity of identified internal control deficiencies, the RSE auditor considers, based on materiality:

- (a) the likelihood that the relevant internal controls may fail to prevent or detect non-compliance with a Prudential Requirement, or a misstatement in the data being provided to APRA in Reporting Forms; and
- (b) the magnitude of the potential resulting non-compliance with a Prudential Requirement on the RSE licensee's overall compliance with applicable Prudential Requirements; and
- (c) the magnitude of the potential misstatement resulting from the internal control deficiency on the information reported in the APRA Reporting Forms.

The evaluation of the severity of a deficiency in internal control does not depend on whether a misstatement in the information in an APRA Reporting Form or non-compliance with a Prudential Requirement has actually occurred, but rather the likelihood that the RSE licensee's controls may fail to prevent or detect a material misstatement or material non-compliance with a Prudential Requirement.

#### *Limited Assurance on RMF (SPS 220)*

111. The objective of the RSE auditor's limited assurance engagement on the RSE licensee's compliance with its RMF is whether they have complied substantially with systems, structures, policies, processes and controls documented in the RMF and which are intended to identify, assess, manage, mitigate and monitor material risks that may affect the RSE licensee's ability to meet its obligations to beneficiaries for the period covered by the engagement. There is no requirement or expectation that the RSE auditor expresses assurance on the adequacy of the specific controls of the RMF.

112. The RSE auditor's limited assurance engagement on the compliance with the RMF may include the following procedures:

- (a) Obtaining an understanding of the RMF and the process to identify material risks including the operational risks outlined in CPS 230 Operational Risk Management.
  - (b) Reviewing the RMF to determine at a high level whether it is broadly consistent with the minimum components outlined in SPS 220, CPS 230 and with the minimum material risk requirements as outlined in SPS 220 and CPS 230.
  - (c) Reviewing the evidence to support the RSE licensee's maintenance of adequate financial, human and technical resources as outlined in SPS 220.
  - (d) Reviewing the relevant risk appetite statement and RMS to confirm that they are up-to-date and approved by the RSE licensee Board.
  - (e) Reviewing the processes (including monitoring and reporting procedures) the RSE licensee has in place to ensure ongoing compliance with the RMF and RMS. Reference to work performed on the RSE licensee's systems, procedures and controls to ensure compliance with prudential requirements may be useful in this circumstance.
  - (f) Reviewing the evidence supporting the RSE's licensee's attestation in the Risk Management Declaration in relation to compliance with the RMF and RMS.
113. The RSE auditor may consider the measures in place which relate to the RSE licensee's monitoring of, and reporting on, specific matters incorporated into the RMF. Such a review may include the following matters:
- (a) Whether breaches of the RMF have been detected and reported by the monitoring systems. When breaches have been detected, whether such breaches are significant either in themselves or, when they are of a recurring nature and have not been rectified, whether their cumulative effect renders them to be a significant non-compliance matter.
  - (b) Identifying systems which they use to ensure that business units and staff comply with the measures in the RMF on a day-to-day basis.
114. As part of the limited assurance engagement on compliance with the RMF, the RSE auditor may seek the following types of information and documentation:
- (a) Copies of the RMF documents that set out the RSE licensee's RMF during the period.
  - (b) Details of changes to the RMF and the RMS and related policies and procedures and the reasons for the revisions.
  - (c) Copies of the risk appetite statement and RMS that applied during the period covered by the engagement.
  - (d) Copies of the comprehensive review report of the RMF performed at least every three years by an operationally independent competent person.
  - (e) Copies of the RSE licensee's attestation in the Risk Management Declaration in relation to compliance with the RMF and RMS and any supporting evidence.
  - (f) Documentation that identifies and describes the systems, policies, procedures and structures that are in place to manage identified risks and representations that such systems, policies, procedures and structures have been complied with during the period.
  - (g) Minutes of the meetings of TCWG and sub-committees responsible for monitoring compliance with aspects of the RMF and the RMS.
  - (h) Internal and external incident and breach reports, breach and complaints registers and follow up action taken to the extent that recorded items may indicate a failure to comply with the RMF and the RMS.

- (i) Internal audit reports.
- (j) Certifications made by the RSE licensee and relevant supporting documentation to substantiate compliance with the RMF and the RMS during the reporting period.
- (k) Other supporting evidence to confirm that the controls identified in the RMF and the RMS have been in place during the reporting period.

The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each RSE licensee.

115. There are practical limitations in requiring the RSE auditor to express a conclusion as to the RSE licensee's compliance at all times with the RMF during the engagement period. However, the RSE auditor performs limited assurance procedures to the extent that the RSE auditor considers appropriate in order to obtain sufficient appropriate evidence as to the RSE licensee's compliance with the written descriptions within the RMF and the RMS throughout the period covered by the engagement.
116. While the RSE auditor is not required or expected to review the adequacy of the RMF and the RMS, during the course of the limited assurance engagement the RSE auditor may become aware of significant deficiencies in the RMF and the RMS which they report to an appropriate level of the RSE licensee's management.

#### **Operational Risk Financial Requirement (ORFR) Strategy (SPS 114)**

117. SPS 114 requires the RSE licensee to implement satisfactory internal audit procedures and external audit arrangements to ensure compliance with, and the adequacy and effectiveness of the ORFR strategy. This requirement does not distinguish what matters must be addressed by internal audit procedures, and those that must be addressed by external audit arrangements. As this responsibility is placed on the RSE licensee it is appropriate to leave this to the RSE licensee to determine.
118. SPS 114 sets out the minimum ORFR strategy inclusions. The RSE auditor should understand the ORFR strategy and its potential impact on the financial report when planning and performing their financial report audit.
119. Permissible uses of the ORFR have expanded over time to cover a wide range of circumstances related to managing the financial impact of operational risks that relate to a RSE. The RSE auditor should as part of the financial report audit engagement, specifically consider how the RSE licensee has used the ORFR and whether its use is consistent with APRA's permissible uses and the RSE's own ORFR strategy.

#### **Format of Reporting Requirements**

120. APRA may under SPS 310 set out information in relation to the reporting requirements under paragraphs 22 to 25 of SPS 310 as well as such other requirements as the prudential regulator deems appropriate.
121. Refer to [apra.gov.au](http://apra.gov.au) website for the latest version of SPS 310 and the AUASB website under '*Other Publications*' for the latest version of the '*Illustrative Auditor's Report – Prudential Standard SPS 310 Audit and Related Matters*'.

#### **Written Representations**

122. Prior to issuing the APRA audit and review reports on the information and compliance, the RSE auditor obtains written representations, as are considered appropriate to matters specific to the RSE licensee, from TCWG and senior management<sup>18</sup>.

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<sup>18</sup> Management and, where appropriate, those charged with governance of the RSE Licensee.

123. These written representations are generally in the form of a representation letter. In obtaining and using these written representations, the auditor complies with the requirements of, as appropriate, ASA 580, ASRE 2405, ASAE 3000, ASAE 3100 and ASAE 3150.

### **Communication**

124. It is the responsibility of the RSE auditor to make the RSE licensee aware, as soon as practicable, of any identified material misstatements in RSE licensee APRA information, material deficiencies in internal controls and instances of material non-compliance arising from the prudential reporting engagement.
125. Such communications are made as soon as practicable, either orally or in writing. The RSE auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, the RSE auditor needs to document the communication.
126. When, in the RSE auditor's judgement, TCWG do not respond appropriately within a reasonable period of time, the RSE auditor considers whether to modify the RSE auditor's report.
127. It is important that the RSE auditor understands the additional statutory responsibilities to report certain matters to APRA under Division 2 of Part 16 of the SIS Act. Failure to notify APRA as required represents a criminal offence, which attracts criminal penalties.
128. Material findings (misstatements, control deficiencies and non-compliance) are reported to APRA and the RSE licensee's Board (or Board Audit Committee) as modifications to the RSE auditor's assurance report.
129. Under Auditing Standard ASA 260 *Communication with Those Charged With Governance*, ASA 265 *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management* and ASAE 3000, the RSE auditor communicates relevant matters of governance interest arising from the engagement to TCWG on a timely basis. Examples of such matters may include:
- (a) The general approach and overall scope of the engagement, or any additional requirements.
  - (b) Fraud or information that indicates that fraud may exist.
  - (c) Significant deficiencies in internal controls identified during the engagement. A significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the RSE auditor's professional judgement is of sufficient importance to merit the attention of TCWG.
  - (d) Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement.
  - (e) Expected modifications to the RSE auditor's report.
130. The RSE auditor informs TCWG of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the RSE auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.

### **Other Reporting Responsibilities**

131. The RSE auditor has certain obligations and responsibilities under section 129 of the SIS Act to report a contravention of the SIS Act or the regulations to a trustee of the RSE and APRA that may have occurred, may be occurring, or may occur, in relation to the RSE licensee that is of such a nature that it may affect the interests of members or beneficiaries of the entity. The RSE auditor must immediately inform a trustee of the RSE and APRA about the matter in

writing, unless the RSE auditor has reasonably concluded that the RSE licensee has already appropriately communicated the contravention to APRA.

132. The RSE auditor also has certain obligations and responsibilities under sections 130 and 130AA of the SIS Act in relation to the RSE licensee's solvency and when the RSE auditor must inform APRA and the RSE licensee about such matters.
133. Whilst conducting the audit of a RSE and associated RSE licensee, the RSE auditor may have other regulatory obligations that stem from the RSE licensee's other financial services regulatory requirements. The RSE auditor should ensure there is a knowledgeable and co-ordinated approach taken in respect of these requirements. Examples of other obligations might include Managed Investment Scheme compliance plan or Australian Financial Services License obligations.

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## **Appendix 1: Risk identification and assessment**

This Guidance Statement does not deal with the audit of RSE financial reports under Chapter 2M of the *Corporations Act 2001* (see paragraph 6). However, paragraph 22 and Attachment A to SPS 310 require the auditor to ensure that information required by SRF 320.0 and SRF 330.0 is consistent with those audited financial reports.

Paragraph 22 of SPS 310 and Attachment A also require the audit of the financial report of small APRA funds and individual member approved deposit funds.

Audits of RSE financial reports should be conducted in accordance with the Australian Standards on Auditing (ASAs) issued by the AUASB. The following industry specific guidance supplements the ASAs for RSE audits.

The identification and assessment of risks is a key element of the audit of RSE financial reports. Identifying and assessing risks and gaining an understanding of the control environment will determine the nature and extent of controls and substantive testing.

In identifying and assessing risks, the auditor may consider matters such as:

1. The valuation of unlisted assets such as property, infrastructure, credit and equity<sup>19</sup>;
2. The appropriate disclosure of:
  - (a) the categorisation of financial assets and liabilities<sup>20</sup>;
  - (b) credit, market and liquidity risk for financial assets<sup>21</sup>; and
  - (c) application of the fair value hierarchy for financial assets<sup>22</sup>.
3. Any tax consequences from realisation of investments and distributions to members are appropriately recognised and disclosed<sup>23</sup>;
4. The adequacy of the disclosure of income and expenses, including amounts charged through unit price spreads<sup>24 25</sup>;
5. Possible errors in units and unit prices for contributions, benefits and other transactions, and at year end<sup>26</sup>;
6. The determination of defined benefit liabilities and benefit payments<sup>27</sup>;
7. The adequacy of the level of disaggregation information necessary to explain the risks and benefit arrangements relating to different categories of members<sup>28</sup>;
8. Any gaps in controls and processes where an external investment custodian or manager is used<sup>29</sup>;

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<sup>19</sup> APRA highlighted the need to address risks related to valuation governance and liquidity management in its report *Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation* - December 2024.

<sup>20</sup> See also AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement*.

<sup>21</sup> See paragraphs 31 to 42 of AASB 7 *Financial Instruments: Disclosure*.

<sup>22</sup> See paragraphs 67 to 90 of AASB 13 *Fair Value Measurement*.

<sup>23</sup> See AASB 112 *Income Taxes*, including paragraphs 52A and 82A.

<sup>24</sup> A superannuation entity shall disclose information that provides users with a basis for understanding the nature and amounts of income and expenses (see paragraph 22 of *AASB 1056 Superannuation Entities*).

<sup>25</sup> Application and redemption prices for a product differ to cover transaction costs (e.g. brokerage) to the extent they are expected to be incurred to buy investments in a growing fund or sell investments in a declining fund. Unit prices should be set and applied equitably and using a sound and reasonable process. See also pages 31, 32, 34, 35 and 62 on transaction costs in *Unit pricing: Guide to good practice: Joint ASIC and APRA Guide: Updated August 2008*.

<sup>26</sup> See also *Unit pricing: Guide to good practice: Joint ASIC and APRA Guide: Updated August 2008*.

<sup>27</sup> See also paragraph 17, 23 and 25 of *AASB 1056 Superannuation Entities*.

<sup>28</sup> A superannuation entity shall disclose disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members (see paragraph 32 of *AASB 1056 Superannuation Entities*). As well as information for sub-funds and products, this could for example include risks and exposures on assets held through unconsolidated controlled pooled superannuation trusts.

<sup>29</sup> See GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.

9. The appropriate allocation of assets between sub-funds and products and whether there are any deficiencies of assets to meet liabilities<sup>30</sup>; and
10. The adequacy of systems and processes to properly identify matters as complaints rather than as 'enquiries', and to identify systemic issues across complaints or in an individual complaint.

RSEs should hold reserves on their Statement of Financial Position to cover operational risks. Paragraph 22 and Attachment A to SPS 310 also require the auditor to provide reasonable assurance on the information required by SRS 114.1 *Operational Risk Financial Requirement*. The auditor should consider weaknesses in operational risk controls as they can result in operational risk incidents that lead to operational risk losses. These include information security, cyber-security risks and the potential loss of member information.<sup>31</sup>

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<sup>30</sup> This can affect whether there are unrecognised deficiencies. See also the duties of trustees of RSEs under s52(2) of the SIS Act. See also paragraph 32 of AASB 1056 *Superannuation Entities*.

<sup>31</sup> See also CPS 230 *Operational Risk Management*, SPS 114 *Operational Risk Financial Requirement* and CPS 234 *Information Security*.

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**GS 002**

(...~~January 2014~~<sup>26</sup>)

**Guidance Statement GS 002**  
*Audit Implications of Prudential Reporting  
Requirements for Registrable  
Superannuation Entities*

Issued by the Auditing and Assurance Standards Board



**Australian Government**

**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

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Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of, a specific AUASB Standard(s); and, where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

**CONTENTS**

**~~AUTHORITY STATEMENT~~**

*Paragraphs*

**Authority Statement**

**Application** ..... 1

**Issuance Date** ..... 2

**Introduction** ..... 3-7

**Definitions** ..... 8

**Communication with APRA** ..... ~~9~~-10

**APRA Prudential Requirements**

**Obligations of RSE Licensees**

Auditor’s Reports ..... 11-~~13~~~~4~~

Responsibility to Keep Auditor Informed ..... ~~15~~~~4~~-~~18~~~~9~~

Risk Management Declaration ..... ~~19~~~~20~~-~~20~~~~1~~

Those Who May Conduct the Reasonable and Limited Assurance Engagements ..... ~~21~~~~2~~-~~22~~~~3~~

Role and Responsibilities of the RSE Auditor ..... ~~23~~~~4~~-~~28~~~~9~~

**Agreeing the Terms of Engagement** ..... ~~29~~~~30~~-~~32~~~~3~~

**Planning the Annual Reporting Engagement**

Materiality ..... ~~33~~~~4~~-~~14~~~~6~~~~7~~

Identifying and Assessing the Risks of Material Misstatement or Compliance Breach..... ~~47~~~~8~~-~~48~~~~9~~

Overall Responses to Assessed Risks of Material Misstatement and Further Procedures..... ~~49~~~~50~~-~~53~~~~2~~

Understanding the Entity and its Environment ..... ~~53~~~~4~~-~~59~~~~60~~

Internal Audit ..... ~~61~~~~0~~-~~61~~~~2~~

**Report on Reasonable Assurance Requirements by the RSE Auditor**

Reporting Requirements.....~~62~~~~3~~

Reasonable Assurance on Historical Financial/APRA Information>Returns (ASA 805) ..... ~~63~~~~4~~-~~72~~~~3~~

Reasonable Assurance on Compliance (ASAE 3100 or ASAE 3000)..... ~~73~~~~4~~-~~80~~~~1~~

**Report on Limited Assurance Requirements by the RSE Auditor**

**Guidance Statement GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities***

---

Reporting Requirements..... 8~~1~~<sub>2</sub>

Inherent Limitations of Limited Assurance..... 8~~2~~<sub>3</sub>-8~~4~~<sub>5</sub>

Limited Assurance on APRA Information/ Returns (ASRE 2405)..... 8~~5~~<sub>6</sub>-8~~9~~<sub>0</sub>

Limited Assurance on Compliance (ASAE 3100 and ASAE 3000) ..... 9~~0~~<sub>1</sub>-11~~6~~<sub>7</sub>

Operational Risk Financial Requirement (ORFR) Strategy (SPS 114)..... 11~~7~~<sub>8</sub>-11~~9~~<sub>0</sub>

Format of Reporting Requirements ..... 12~~0~~<sub>1</sub>-12~~1~~<sub>2</sub>

**Written Representations** ..... 12~~2~~<sub>3</sub>-12~~3~~<sub>4</sub>

**Communication** ..... 12~~4~~<sub>5</sub>-13~~0~~<sub>1</sub>

**Other Reporting Responsibilities** ..... 13~~1~~<sub>2</sub>-13~~3~~<sub>4</sub>

Appendix 1: [Risk identification and assessment Subject Matter, Criteria, Level of Assurance and Applicable AUASB Standards for Engagements](#)

Appendix 2: [Example of an Engagement Letter— RSE Licensee APRA Annual Return and Compliance Reasonable and Limited Assurance Engagements](#)

[Note: Illustrative Independent Auditor’s Report Templates available on the AUASB website www.auasb.gov.au](#)

### AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on ~~auditing and~~ assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: ~~30xx xxxx~~ January 2014~~26~~

~~DM H Niven Kelsall~~  
Chairman - AUASB

## GUIDANCE STATEMENT GS 002

### *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities*

#### Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors of Registrable Superannuation Entities (RSEs), reporting pursuant to the prudential reporting requirements specified by APRA in its Superannuation RSE Prudential Standard SPS 310 Audit and Related Matters (June 2024) (SPS 310).

#### Issuance Date

2. This Guidance Statement is issued on 30xx XXX January 2014 ~~26~~ by the AUASB and replaces GS 002 *Audit Implications of Prudential Reporting Requirements - Special Considerations in the Audit of Risk Management Requirements for Registrable Superannuation Entities and Licensees*, issued in January ~~September~~ 2014.

#### Introduction

3. Under the *Superannuation Industry (Supervision) Act 1993* (SIS Act), APRA is responsible for the prudential supervision and monitoring of prudential matters relating to all Registrable Superannuation Entities (RSEs) in order to protect the interests of members and beneficiaries or prospective members ~~of the RSE concerned~~.
4. APRA formulates, promulgates and enforces prudential policy and practice through Superannuation Prudential Standards (SPSs). In addition, APRA may also issue non enforceable Superannuation Prudential Practice Guides (SPGs) and other guidelines, to assist RSEs in complying with the requirements in its Prudential Standards and, more generally, to outline prudent practices in relation to certain elements of the RSEs operations.<sup>1</sup>
5. The RSE auditor is required to report pursuant to the prudential reporting requirements specified by APRA in SPS 310 paragraph 22 ~~19~~ as outlined below:
  - (a) reasonable assurance addressing:
    - (i) ~~annual financial statements of each RSE prepared in accordance with relevant Australian Accounting Standards issued by the Australian Accounting Standards Board; and~~
    - (ii)(i) the ~~annual~~ information, relating to each RSE, required under the reporting standards made by APRA under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act) that are identified in Attachment AB to SPS 310 as requiring reasonable assurance; and
    - (ii) compliance with the legislative provisions that are identified in Attachment B to SPS 310 of the SIS Act, Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations), the Corporations Act 2001 (Corporations Act), Corporations Regulations 2001 (Corporations

<sup>1</sup> Access to APRA Prudential Standards, Prudential Practice Guides and legislation relevant to RSEs is available on APRA's website ([www.apra.gov.au](http://www.apra.gov.au)).

~~Regulations), FSCOD Act, and any additional conditions APRA has imposed on the RSE licensee's RSE licence under section 29EA of the SIS Act, that are specified in an approved form; and~~

(iii) ~~the annual financial statements for each RSE that is a small APRA fund (SAF), prepared in accordance with relevant Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB), and~~

(b) limited assurance addressing:

(i) the ~~annual~~ information, relating to each RSE, required under the reporting standards made by APRA under the FSCOD Act that are identified in Attachment ~~A~~~~B~~ to SPS 310 as requiring limited assurance; and

(ii) the RSE licensee's systems, procedures and internal controls that are designed to ensure that the RSE licensee has complied with all applicable prudential requirements, has provided reliable data to APRA as required under the reporting standards ~~made~~~~prepared~~ under the FSCOD Act, and has operated effectively throughout the year of income; and

~~(iii) the RSE licensee's compliance with its Risk Management Framework (RMF),<sup>2</sup> and~~

~~6. the RSE licensee's compliance with its operational risk financial requirement (ORFR) strategy.~~

~~(iii)~~

~~7.6. This Guidance Statement provides guidance for each element of the assurance engagements under SPS 310, other than the audit of small APRA fund financial reports. This Guidance Statement does not focus except for the report on the audit of the financial report statements of the RSE under Chapter 2M of the Corporations Act 2001 (Corps Act) licensee as specified in paragraph 19(a)(i) of SPS 310, for which mandatory requirements and explanatory guidance are provided in the Australian Auditing Standards. However, the auditor should ensure that the information required by APRA reporting forms SRF 320.0 and SRF 330.0 is consistent with those audited financial reports. Appendix 1 also outlines industry specific matters that may be considered by the auditor as part of their risk identification and assessment for audits of RSE financial reports under Chapter 2M of the Corps Act and the audit of small APRA funds and individual member approved deposit funds under SPS 310.~~

~~8.7. In addition to the legislative and regulatory requirements imposed on RSE auditors, relevant Auditing and Assurance Standards Board (AUASB) Standards are applicable to engagements under the prudential standards. This Guidance Statement has been developed to clarify how the RSE auditor meets their regulatory obligations whilst also applying the requirements of:~~

(a) *ASA 805 Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, when conducting assurance engagements on subject matters of a single financial statement and specific elements, accounts or items of a financial statement, which includes assurance engagements under SPS 310 paragraph ~~22~~~~19~~(a)(i).

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<sup>2</sup> —Refer to Prudential Standard SPS 220 *Risk Management* for the requirement for the RSE licensee to have a risk management framework.

- (b) ASAE 3100 *Compliance Engagements*, when conducting assurance engagements regarding compliance with legislative or regulatory requirements as outlined under SPS 310 paragraph ~~2219(a)(ii) and 2219(b)(ii)~~, (iii) ~~and (iv)~~.
- (c) ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, when conducting assurance engagements on specific elements, components, accounts or items of a historical financial report, which includes assurance engagements as outlined under SPS 310 paragraph ~~2219(b)(i)~~.
- ~~(d)~~ ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, when conducting assurance engagements on subject ~~matters other~~ matters other than historical financial information or sustainability information, which includes assurance engagements as outlined under SPS 310 paragraphs ~~2219(a)(ii), 2219(b) (ii), (iii) and (iv)~~;
- ~~(d)~~(e) ASAE 3150 *Assurance Engagements on Controls*, when conducting assurance engagements regarding compliance with systems, procedures and internal controls as outlined under SPS 310 paragraph 22(b)(i).

~~The RSE auditor in meeting their role and responsibilities under these engagements is required by APRA to comply with relevant standards and guidance issued by the AUASB to the extent that they are not inconsistent with the requirements of SPS 310 and other prudential requirements<sup>3</sup>. In the exceptional circumstances that an inconsistency arises between APRA prudential requirements and those of the AUASB, the RSE auditor<sup>4</sup> will need to communicate such matters to those charged with governance (TCWG).~~

## Definitions

~~9.8.~~ For the purposes of this Guidance Statement, the following items have the meanings attributed below:

- ~~(a)~~ APRA Reporting Form means a form used for the collection and reporting of information in relation to the RSE licensee, as required to be provided to APRA by the RSE licensee in accordance with APRA Reporting Standards made under the *Financial Sector (Collection of Data) 2001 (FSCOD Act)*.
- ~~(a)~~(b) Assurance engagement means an engagement in which the RSE auditor aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).
- ~~(b)~~(c) Internal control is defined in ASAE 3150 and generally encompasses the following components:
  - (i) the control environment;
  - (ii) the RSE licensee's risk assessment process;

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<sup>3</sup> "Prudential requirements" include requirements under the SIS Act, the SIS Regulations, prudential standards, reporting standards, the FSCOD Act, licence conditions, authorisations, superannuation data and payment standards, directions and any other requirements imposed by APRA under legislation.

<sup>4</sup> The RSE auditor has regard to the requirements and guidance in ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standard, paragraphs 18 to 24 and APES 210 Conformity with Auditing and Assurance Standards.

- (iii) information systems, including the related business processes, relevant to financial and prudential reporting, and communication;
- (iv) control activities; and
- (v) monitoring of controls.

The way in which internal control is designed and implemented varies depending on the RSE licensee's size and complexity.

~~(e)~~(d) RSE auditor means an independent auditor(s) appointed by the RSE licensee under the Corporations Act 2001 to meet the prudential reporting requirements under SPS 310. The RSE auditor can be an individual RSE auditor, an RSE audit firm or an RSE audit company. An RSE can only have one auditor (s324AA(2) of the Corps Act) and the individual auditor or lead auditor must be a registered company auditor (s324BA and s324AF of the Corps Act).

~~Under SPS 310, it is possible for the RSE licensee to have more than one RSE auditor at any time, and for an RSE auditor appointed who satisfies the criteria under SPS 310 to be different from the RSE auditor responsible for undertaking the financial statement audit under SPS 310.~~

~~(d) — APRA Annual Return(s), means a form used for the collection and reporting of information in relation to the RSE licensee, as required to be provided to APRA by the RSE licensee in accordance with APRA Reporting Standards made under the FSCOD Act.~~

(e) Limited assurance, is defined in accordance with the AUASB's Framework for Assurance Engagements~~engagement means an assurance engagement in which the RSE auditor reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the RSE auditor's attention to cause the RSE auditor to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the RSE auditor's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the RSE auditor is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.~~

- (f) Prudential requirements include requirements imposed by~~under the:~~
- (i) SIS Act;
  - (ii) SIS Superannuation Industry (Supervision) Regulations 1994;
  - (iii) prudential standards made under the SIS Act~~(and Prudential Practice Guides (SPG));~~
  - (iv) reporting standards;
  - (v) reporting standards made under the FSCOD Act;
  - (vi) licence conditions, authorisations, superannuation data on the RSE licensee's licence and payment standards; and

- (vii) ~~directions and~~ any other requirements imposed by APRA ~~in writing under~~ legislation.
- (g) Reasonable assurance, ~~is defined in accordance with the AUASB's Framework for Assurance Engagements~~ engagement means an assurance engagement in which the RSE auditor reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the RSE auditor's conclusion. The RSE auditor's conclusion is expressed in a form that conveys the RSE auditor's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.
- (h) RSE under section 10(1) of the SIS Act means:
- (i) a regulated superannuation fund; or
  - (ii) an approved deposit fund; or
  - (iii) a pooled superannuation trust;
- but does not include a self-managed superannuation fund.

~~Reliability Under the Australian Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements means information has the quality of reliability "... when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent".~~

### **Communication with APRA Tripartite Relationship**

- ~~10. APRA's liaison with the RSE auditor is normally conducted under tripartite arrangements involving APRA, the RSE licensee and its auditor(s) (see SPS 310).~~
- ~~11. Any one of the parties involved in the tripartite relationship may initiate meetings or discussions at any time, when considered necessary.~~
- ~~12. Notwithstanding the tripartite relationship, APRA and the RSE auditor may meet, at any time, on a bilateral basis at the request of either party. APRA may communicate with the RSE auditor on a bilateral basis to obtain or discuss information for whatever reason(s) it considers appropriate.~~
- ~~13.9.~~ Under Prudential Standard SPS 510 Governance, the RSE licensee is required to ensure that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors (or other parties) from communicating with APRA.
- ~~14.10.~~ Under section 130A of the SIS Act, the RSE auditor may give to APRA information about the entity or a trustee of the entity obtained in the course of, or in connection with the performance of the audit, if the RSE auditor considers that giving the information will assist APRA in performing its functions under the SIS Act, regulations, prudential standards, ~~or~~ FSCOD Act or the Financial Accountability Regime Act 2023.

## **APRA Prudential Requirements**

### **Obligations of RSEs Licensees**

#### **Lodgement of Auditor's Reports**

- ~~15.11.~~ The RSE licensee is required to submit to APRA or ASIC all reports required to be prepared by the RSE auditor in accordance with the prudential requirements and within the time specified in SPS 310.

~~16.12.~~ ~~Subject to paragraph 173 below, These reporting requirements include the scenario~~ where the RSE licensee has more than one RSE within its business operations. ~~In this case,~~ the RSE licensee must ensure that the RSE auditor completes a separate auditor's report for each RSE.

~~17.13.~~ ~~Where In the case of~~ the RSE licensee's ~~whose~~ business operations include one or more ~~small APRA funds~~ (SAFs), the RSE licensee may engage the RSE auditor to prepare a single auditor's report covering some or all of ~~those~~ SAFs ~~within its business operations~~, provided that the RSE meets the requirements as set out in SPS 310 in relation to:

- (a) its ~~R~~risk ~~M~~management ~~S~~strategy (~~RMS~~);
- (b) each SAF is individually audited;
- (c) the RSE auditor's report is unmodified; and
- (d) the RSE licensee provides APRA with a listing of all SAFs covered by the single RSE auditor's report.

~~18.~~ ~~Where the RSE licensee is part of a group, the RSE auditor may prepare that part of the auditor's report as the RSE auditor considers appropriate, either as part of the group, provided it is clear where the RSE auditor is referring to the RSE licensee or the group; or on a standalone basis separate to the group.~~

#### **Responsibility to Keep Auditor Informed**

~~19.14.~~ Under ~~paragraph 11 of~~ SPS 310, the RSE licensee must use all reasonable endeavours to assist the RSE auditor in being fully informed of all APRA Prudential Requirements applicable to the RSE licensee. This may include the RSE licensee making the RSE auditor aware of any ~~circumstances that have changed~~ in the RSE licensee's business operations that may impact the scope of any ~~limited or reasonable~~ assurance engagements under SPS 310.

~~20.15.~~ Under ~~paragraph 12 of~~ SPS 310, the RSE licensee ~~is furthermore required to must~~ ensure that the RSE auditor has access to all relevant data, information, reports and staff ~~in respect~~ of the RSE licensee's ~~business operations~~, that the RSE auditor reasonably believes is necessary to fulfil their responsibilities. This includes access to the Board of the RSE licensee, ~~including all relevant Committees that include~~ the Board Audit Committee, ~~Valuation Committee, and Risk Committees~~ and the internal auditor's where required.

~~21.16.~~ In particular, the RSE licensee is required to provide the RSE auditor with access to their ~~Risk Management Framework~~ (RMF) documents, as outlined in SPS 220 *Risk Management*, including the annual Risk Management Declaration as approved and signed by ~~Those Charged with Governance~~ (TCWG)<sup>5</sup>, and forwarded to APRA by the RSE licensee. In practice, this declaration may only be available immediately prior to the RSE auditor completing their audit.

~~22.17.~~ Under section 35AB(1) of the SIS Act, the RSE auditor can request, in writing from the trustees of the RSE a document that is relevant to the preparation of their report. Each trustee of the RSE must ensure the document is given to the RSE auditor within 14 days of the request being made.

~~23.18.~~ ~~In relation to the RSE licensee's responsibility to keep the RSE auditor informed,~~ The RSE auditor ~~outlined~~ ~~includes~~ these ~~RSE licensee's~~ responsibilities ~~to keep the RSE auditor~~

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<sup>5</sup> ~~An RSE licensee is a constitutional corporation, body corporate, or group of individual trustees, that hold an RSE licence granted by APRA under section 29D of the SIS Act. TCWG may therefore be the individual trustees or the directors of a corporation or body corporate.~~

informed clearly in the engagement letter<sup>6</sup> and also requests management of the RSE licensee to sign an appropriate representation letter<sup>7</sup> (refer paragraphs 129~~2~~ and 123~~0~~).

### **Risk Management Declaration**

~~24.19.~~ Under SPS 220, the RSE licensee is required to submit to APRA, at the same time as lodging ement of the annual information under FSCOD Act, a declaration on risk management. This declaration includes but is not limited to, statements by the RSE licensee on:

- (a) the reliability of financial information lodged with APRA;
- (b) the adequacy of the systems in place to ensure compliance with APRA prudential requirements including the ~~Risk Management Strategy (RMS)~~;
- (c) systems and resources are in place for managing and monitoring risks, and the RMF is appropriate to the RSE licensee's business operations;
- (d) adequate reporting systems and internal controls supporting the preparation and reporting of accurate financial and statistical information to APRA;
- (e) the effectiveness of the RSE licensee's processes and systems surrounding the production of financial information.

Refer to SPS 220 Attachment A for further information in relation to the RSE licensee's Risk Management Declaration.

~~25.20.~~ The RSE auditor is not required to form an opinion on the RSE licensee's Risk Management Declaration other than in the context of the RSE auditor's responsibility to express an opinion or a conclusion on the RSE's compliance in accordance with the responsibilities and reporting requirements of SPS 310.

### **Responsibilities of the RSE Auditor**

#### **Those Who May Conduct the Reasonable and Limited Assurance Engagements**

~~21.~~ As outlined in paragraph 14 of SPS 310, the RSE licensee must ensure that an RSE audit firm or an RSE audit company:

- (a) is not disqualified under section 130EA of the SIS Act; and
- (b) satisfies the independence requirements in Prudential Standard SPS 510 on Governance.

~~26.22.~~ As outlined in paragraph 13 of SPS 310, the RSE licensee ~~must needs to~~ ensure that an the individual RSE auditor or a lead auditor-:

- (a) is not disqualified under section 130D of the SIS Act;
- (b) satisfies the eligibility criteria in Prudential Standard SPS 520 *Fit and Proper* (SPS 520) as applicable to the RSE auditor;
- (c) is a fit and proper person in accordance with the RSE licensee's Fit and Proper Policy as required by SPS 520; and

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<sup>6</sup> The RSE auditor has regard to the requirements and guidance provided in ASA 210 *Agreeing the Terms of Audit Engagements* when completing the engagement letter.

<sup>7</sup> The RSE auditor has regard to the requirements and guidance provided in ASA 580 *Written Representations* when requesting this letter.

- (d) satisfies the auditor independence requirements in [Prudential Standard-SPS 510 Governance](#).

As such, the RSE auditor will need to provide information to the RSE licensee to assist the RSE licensee to adhere to this requirement.

### **Role and Responsibilities of the RSE Auditor**

~~27-23.~~ The roles and responsibilities of the RSE auditor under SPS 310 will include at a minimum, reporting in an auditor's report:

- (a) a reasonable assurance opinion on the requirements in SPS 310 paragraph ~~22-19~~(a)(i), (ii) and (iii); and
- (b) a limited assurance conclusion on the requirements in SPS 310 paragraph ~~22-19~~(b)(i), (ii); ~~and~~ (iii) ~~and (iv)~~.

These requirements are discussed in paragraph 5 of this Guidance Statement.

~~28-24.~~ In addition, APRA may require [in writing that](#) the RSE auditor to undertake a special purpose engagement, ~~when requested by APRA in writing~~, in relation to a particular aspect of the RSE licensee's business operations, [compliance with](#) prudential requirements or ~~the risk management frameworkRMF~~.

~~29-25.~~ The RSE auditor also has certain obligations and responsibilities under [Division 2 of Part 16 section 129](#) of the SIS Act to report to the RSE licensee and APRA in certain circumstances. Refer to paragraphs ~~4638~~ and ~~3947~~ [for further guidance of this Guidance Statement](#).

~~30-26.~~ The RSE auditor is required to modify the opinion ~~contained in their~~ auditor's report for breaches of any provisions which, in the RSE auditor's professional ~~judgementopinion~~, are material. In forming an opinion as to whether a breach is material, the RSE auditor refers to relevant AUASB standards ~~and SPG 310 Audit and Related Matters~~.

~~31-27.~~ ~~The RSE auditor is required~~ ~~W~~hen preparing a report ~~or assessment~~ required under the SIS Act or SPS 310 (whether as part of a routine or special purpose engagement) [the auditor must](#):

- (a) do so on the basis that APRA may rely upon the report in the performance of its functions under the SIS Act; and
- (b) exercise independent judgement and not place sole reliance on work performed by APRA.

~~32-28.~~ ~~As outlined in~~ SPS 310 ~~requires~~, the RSE auditor ~~is required~~ to retain all working papers and other documentation in relation to ~~the prudential requirements of the RSEan engagement under thatis Prudential Standard~~ for a period of at least ~~sevenfive~~ years after the end of year of income. ~~Where requested to do so in writing by~~ APRA, [may require](#) the RSE auditor ~~tomust~~ provide the working papers and other documentation to APRA.

### **Agreeing the Terms of Engagement**

~~33-29.~~ The RSE auditor and the RSE licensee agree on the terms for each discrete engagement as outlined under SPS 310, paragraph ~~22-19~~. Such terms may be detailed in one engagement letter or other suitable form of written contract. The RSE auditor has regard to ASA 210 *Agreeing the Terms of Audit Engagements* when agreeing the terms of the engagement with the RSE licensee.

- ~~34.30. It is noted that While~~ the appointment of the RSE auditor ~~by the RSE licensee~~ may cover more than one year of income, ~~the RSE auditor should~~ ~~in which case it would be prudent for the RSE licensee to confirm~~ the terms of the engagement ~~of the RSE auditor~~ annually.
- ~~35.31. The engagement letter should confirm~~ ~~It is important~~ that TCWG of the RSE licensee are aware of the RSE auditor's obligations referred to in SPS 310 and of the implications for confidentiality and restriction of distribution of the auditor's report beyond those users for which the RSE auditor reports were primarily prepared being the RSE licensee and APRA. ~~It is important also that~~ ~~The engagement letter~~ ~~should include a~~ reference to the responsibility of TCWG of the RSE licensee ~~to establish and maintain effective internal controls~~ s to meet its APRA reporting requirements.
- ~~36.32. The engagement letter explains that any special purpose engagement of specific matters relating to the RSE licensee's business operations, compliance with prudential requirements or the RSE licensee's RM risk management framework, will constitute a separate engagement(s) and that the details of such engagement(s) that~~ will be the subject of a separate engagement letter(s).

~~An example engagement letter to reflect APRA reporting requirements as per SPS 310 is set out in Appendix 2 to this Guidance Statement.~~

## Planning the Annual Reporting Engagement

### Materiality~~†~~

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- ~~37.33. When planning and performing an assurance engagement, whether the engagement is being conducted under ASA 805, ASRE 2405, ASAE 3000 or ASAE 3100, the RSE auditor considers materiality.<sup>8</sup> The materiality levels set (overall and performance materiality) will determine the nature, timing and extent of risk assessment and further assurance procedures to be performed on the subject matter, whether it be account balances or disclosures in the APRA annual returns under the FSCOD Act, internal controls or compliance matters. The auditor considers materiality, in accordance with the requirements of AUASB Standards applicable to each section of the assurance engagement, when planning and performing the engagement. During the engagement the RSE auditor re-assesses materiality if matters come to their attention that indicate that the basis on which materiality was assessed has changed.~~

~~In determining materiality, the RSE auditor applies professional judgement to understand and assess what factors might influence the decisions of the regulator and other intended users and the magnitude and nature of misstatements, non disclosures or compliance breaches which may adversely affect decisions made by those users. Where particular types of accounts, disclosures or compliance matters may have a greater impact on the decisions of users, materiality may need to be set lower for those amounts or matters.~~

- ~~38. Materiality is determined in the same way whether the engagement is a reasonable or limited assurance engagement. The difference between limited and reasonable assurance engagements lies in the nature, timing and extent of evidence gathering procedures, which will differ in order to reduce the risk of a material misstatement or compliance breach remaining undetected to an acceptably low level, in the case of a reasonable assurance engagement, or to a limited level, in the case of a limited assurance engagement. The risk of material misstatements or compliance breaches in a limited assurance engagement is not reduced to the same extent as in a reasonable assurance engagement, because of the more limited nature, timing and extent of procedures conducted. In a limited assurance engagement, the RSE auditor seeks to obtain a meaningful level of assurance, which is likely to enhance the~~

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<sup>8</sup> ~~ASA 320 Materiality in Planning and Performing an Audit may provide useful guidance in applying materiality for engagements under ASA 805, ASAE 3000 and ASAE 3100.~~

intended users' confidence about the subject matter to a degree that is clearly more than inconsequential.

Although there is a greater risk that misstatements, control deficiencies or instances of non-compliance may not be detected in a limited assurance engagement than an reasonable assurance engagement, the judgement as to what is material is made by reference to the subject matter on which the auditor is reporting and the needs of those relying on that information, as opposed to the level of assurance obtained.

*Reasonable and/or Limited Assurance on APRA Reporting Annual Returns*

39.34. In applying ASA 320, ASA 805 and ASRE 2405, as appropriate, to individual APRA reporting forms annual returns, the auditor has regard to the nature, purpose and use of the information included in each reporting form annual return. The collection and analysis of data in specified reporting forms annual returns is a critical component of APRA's supervisory function. APRA collects data from RSEs (and other APRA-regulated entities) for a broad range of reasons some of which may include:

- (a) evaluating verify compliance with prudential requirements (e.g. meeting Operational Risk Financial Requirement solvency and adequacy of (ORFR) target amounts and tolerance limit requirements);
- (b) understanding the operations of the entity and the industry;
- (c) identifying emerging issues in both the entity and the industry;
- (d) passing on data to other government agencies; and
- (e) providing information on the finance sector to research organisations and the general public.

40.35. The RSE auditor determines:

- (a) materiality for the report or application as a whole and, if appropriate, materiality for particular classes of accounts or disclosures, for assessing misstatements; and
- (b) performance materiality, for assessing the risks of material misstatement and determining the nature, timing and extent of further procedures.

41.36. Materiality is to be addressed in the context of the RSE's objectives relevant to the particular prudential reporting standards being examined and whether the internal controls will reduce to an acceptable level the risks that threaten achievement of those objectives. These objectives are developed having regard to the protection of the interests of the members and beneficiaries as a whole and prospective members of the RSE. AASB 4031 Practice Statement 2 Making Materiality Judgements may provide useful guidance to the RSE auditor with regard to matters likely to adversely affect the interests of members including which generally relating to solvency and going concern assumptions.

*Reasonable Assurance on Compliance*

42.37. APRA expects the RSE auditor to consider each compliance requirement contained in paragraph 22.19(a)(iii) of SPS 310 individually when applying materiality considerations to form an audit opinion.

43.38. Where the RSE auditor identifies any instance whereby the requirements of paragraph 22.19(a)(iii) of SPS 310 or any other requirement of the law referred to in section 129 of the SIS Act has been contravened or is being contravened or is likely to be contravened, under the SIS Act the RSE auditor is required to communicate report that non-compliance to the trustees of the RSE in writing. If the contravention may affect the interests

of members or beneficiaries of the RSE entity, then the RSE auditor is required under the SIS Act to report that instance of non-compliance to APRA.<sup>9</sup>

- 44.39. Where the trustees of the RSE licensee ~~are~~ already aware of the matter or instance of non-compliance, ~~and has informed the trustee of the RSE of the matter or instance of non-compliance~~, the RSE auditor is not required under the SIS Act to report the matter or instance to ~~the~~ trustee of the RSE. The RSE auditor need not report the matter to APRA where the RSE auditor reasonably concludes that another RSE auditor or actuary has already appropriately communicated the non-compliance to APRA<sup>10</sup>.
- 45.40. Matters or instances of non-compliance under section 129 of the SIS Act refer not only to past and present matters or instances but also reasonably possible future matters or instances that the RSE auditor may become aware of whilst conducting an audit or review for which they are engaged during any year of income.
- 46.41. The RSE auditor exercises professional judgement in considering materiality appropriate to the RSE's circumstances, having regard to their obligations, the purpose and terms of the specific engagement, together with the size, business mix and complexity of the RSE's business operations.
- 47.42. When considering materiality in relation to compliance, both quantitative factors, that is the magnitude of the amounts, the period of time between the required time for compliance and actual fulfilment of the requirement, whether the matter is part of a systemic issue and qualitative factors, such as how the information will be used ~~or how close the reported amounts are to applicable thresholds~~, are taken into account by the RSE auditor.

#### *Limited Assurance on Internal Controls and Compliance*

43. Material deficiencies in the design and implementation of controls and material deviations in the operating effectiveness of controls are those which could reasonably be expected to influence relevant decisions of the intended users.
- 48.44. In accordance with ASAE 31500 ~~and other applicable assurance standards, when reviewing internal controls~~, the RSE auditor shall identify a control objective relevant to the scope of the engagement assesses materiality in the context of the RSE licensee's objectives relevant to the particular area of activity being examined, and whether the internal controls will reduce to an acceptably low level, based on auditor judgement, the risks that threaten achievement of those objectives.
- 49.45. In assessing materiality, the RSE auditor has regard to the measures the RSE licensee has adopted to ensure:
- (a) compliance with all applicable ~~p~~Prudential ~~r~~Requirements;
  - (b) reliable data is provided to APRA in all APRA Reporting Forms Annual Returns prepared and as required under the reporting standards made under the FSCOD Act; and
  - (c) ~~the~~ operating effectiveness throughout the year of income.
50. ASAE 3100 and ASAE 3150 sets out the requirements and provides guidance to the RSE auditor in applying materiality in the context of a compliance engagement and an assurance engagement on controls. ASAE 3150 requires the RSE auditor to reassess the materiality of

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<sup>9</sup> Refer to section 129 of the SIS Act.

<sup>10</sup> Refer to section 129(3A)(b) of the SIS Act.

the controls if matters come to their attention during the engagement which indicate that the basis on which the materiality of those controls was determined has changed.

~~51.~~ Overall Materiality

~~52.~~ Performance materiality is usually set below the overall materiality so that the aggregated uncorrected or undetected misstatements is not likely to exceed overall materiality. If only one source is reported, it may be appropriate for performance materiality to be set at the same amount as overall materiality. It is not simply a mechanical calculation but involves the exercise of professional judgement.

~~53.46.~~ Overall, materiality and performance materiality, including the percentages and tolerances on which they are based, are documented in the engagement plan.

### **Identifying and Assessing the Risks of Material Misstatement or Compliance Breach**

~~54.47.~~ When identifying and assessing risks of material misstatement or compliance breach as a basis for designing and performing further assurance procedures, the RSE auditor does so at the reporting standard level or the individual compliance requirement level, and for reasonable assurance engagements, also at the assertion level for material classes of transactions, accounts, disclosures or compliance matters.

~~55.48.~~ Factors impacting the risk assessment for engagements under SPS 310 may include:

- (a) the reliability of the reporting systems;
- (b) the risk culture of the RSE licensee;
- (c) the adequacy of systems and controls to identify, assess, manage, mitigate and monitor material risks;
- (d) history of non-compliance by the RSE licensee;
- (e) reported concerns regarding the RSE licensee as communicated by APRA;
- (f) the estimation and uncertainty inherent in the measurement methodologies applied by the RSE licensee with respect to aspects such as valuation of assets, expenses and revenue from superannuation activities;
- (g) any bias inherent in the measurement methodologies adopted by the RSE;
- (h) level of change in the RSE licensee's business operation's or environment.

### **Overall Responses to Assessed Risks of Material Misstatement and Further Procedures**

~~56.49.~~ The RSE auditor designs and performs further assurance procedures which are responsive to assessed risks of material misstatement or material compliance breach. The assurance procedures performed on any particular engagement is a matter of professional judgement and the nature, timing and extent of procedures will vary widely due to the different circumstances of each engagement. The RSE auditor chooses a combination of assurance procedures, which may include: inspection, observation, confirmation, recalculation, re-performance, analytical procedures and enquiry. Irrespective of the assessed risks of material misstatement or material compliance breach, the RSE auditor designs and performs test of details for each material source of accounts, class of transaction, disclosures or compliance matter. In designing these tests the RSE auditor needs to consider the risks of material understatement, particularly with respect to immaterial amounts reported, or risk of material omission.

*Work Effort for a Limited versus Reasonable Assurance Engagement*

- ~~57.~~50. ASAE 3000 clearly differentiates between the work which is required to be conducted for a limited versus a reasonable assurance engagements. ~~However, t~~The nature, timing and extent of evidence gathering procedures which are conducted in any given circumstance is a matter of professional judgement and is determined in response to the RSE auditor's determination of materiality, the risk assessment and the results of the procedures conducted in response to assessed risks. As the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the RSE auditor will perform will vary in nature and timing from and will be less in extent than for a reasonable assurance engagement. In a limited assurance engagement procedures primarily involve enquiries and substantive analytical procedures and less emphasis on ~~may not include~~ tests of controls.
- ~~58.~~51. Although procedures in a limited assurance engagement will be more limited in nature, timing and extent than for a reasonable assurance engagement, ASAE 3000, ~~and~~ ASAE 3100<sup>11</sup> and ASAE 3150 require additional procedures to be conducted if the RSE auditor becomes aware of a matter which causes them to believe the subject matter may be materially misstated or there may be a material compliance breach, a material control deficiency or a material control deviation. The RSE auditor may conduct procedures more akin to a reasonable assurance engagement on this particular matter in order to satisfy themselves that either the subject matter is not likely to be materially misstated or non-compliant, or that there is not likely to be a material ~~by control deficiency misstated or non-compliant~~ deviation.
- ~~59.~~52. In a reasonable assurance engagement, procedures will include tests of controls as well as tests of detail. When conducting a reasonable assurance engagement, if the RSE auditor is able to obtain evidence that the controls they wish to rely on are operating effectively, then the nature, timing and extent of tests of details may be reduced or modified. If reliance is to be placed on the operating effectiveness of controls throughout the period, then testing will need to cover that period. Alternatively, if the identified controls are not operating effectively, then the nature, timing or extent of tests of details will need to be increased or modified.

**Understanding the Entity and its Environment**

- ~~60.~~53. ASA 805, ASA 315, ASRE 2405, ASAE 3000 and ASAE 3100<sup>12</sup> require the RSE auditor to obtain an understanding of the entity and its environment and identify and assess the risk of material misstatement or compliance breach in order to plan the engagement. In gaining this understanding, the RSE auditor can draw on knowledge gained as part of the annual financial statement audit<sup>13</sup> ~~conducted under the SPS 310~~, however this understanding would need to be updated<sup>14</sup> and broadened to meet the requirements of an SPS 310 engagement. ASAE 3100<sup>15</sup> provides a list of matters to be considered by the RSE auditor in understanding the entity and the compliance framework. It is likely the RSE auditor will conduct the following procedures in obtaining that increased understanding and assessing risk: enquiries, analytical procedures and observation and inspection.
- ~~61.~~54. For a limited assurance engagement, the RSE auditor does not normally develop the depth of understanding of internal controls as is required in a reasonable assurance engagement and so gaining that understanding may be limited to enquiries.
- ~~62.~~55. The assessment of risk is directed at identifying those risks that may result in either the subject matter being materially misstated, or, for a compliance engagement, the existence of material breaches of the relevant requirements.

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<sup>11</sup> ——— See ASAE 3100, paragraph 3156.

<sup>12</sup> See ASAE 3100, paragraphs 3028-29.

<sup>13</sup> See ASA 805, paragraphs 7-8.

<sup>14</sup> See ASRE 2405, paragraphs 26-27.

<sup>15</sup> See ASAE 3100, paragraphs A3028-32, 49 and 50.

*Considerations relating to the RSE Licensee using a service organisation*

~~63.56.~~ In auditing the RSE licensee, it is likely that the RSE auditor will consider service organisations providing services [to the RSE licensee](#) such as administration and custody. Such organisations typically provide Type 1 or Type 2 service organisation auditor's report under ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.

~~64.57.~~ In accordance with ASA 402 [and ASA 315](#), the RSE auditor would obtain an understanding of the following, [including the relevant requirements of CPS 230 Operational Risk Management](#):

- (a) the nature of the services provided by the service organisation and the significance of those services to the RSE licensee, including the effect thereof on the RSE licensee's internal controls;
- (b) the nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation ~~(and subservice organisation, where applicable)~~;
- (c) the degree of interaction between the activities of the service organisation and those of the RSE licensee;
- (d) the nature of the relationship between the RSE licensee and the service organisation, including the relevant contractual terms for the activities undertaken by the service organisation; and
- (e) the design and implementation of relevant controls at the RSE licensee that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organisation.

~~65.58.~~ Where audit evidence over relevant assertions is to be obtained from either a Type 1 or Type 2 service organisation auditor's report under ASA 402, the RSE auditor needs to:

- (a) evaluate the service auditor's professional competence and independence from the service organisation; and
- (b) evaluate the adequacy of the standards under which the Type 1 or 2 service auditor's report is to be/was issued.

~~66.59.~~ Where audit evidence relating to controls design, implementation and operating effectiveness is to be obtained from either a Type 1 or Type 2 service organisation auditor's report under ASA 402, the RSE auditor needs to:

- (a) determine whether complementary user entity controls identified by the service organisation are relevant to the RSE licensee; and
- (b) to the extent they are relevant, obtain an understanding of whether the user entity has designed and implemented such controls and, if so, plan to test their operating effectiveness, as appropriate.

### **Internal Audit**

~~67.60.~~ SPS 510 requires the RSE to have in place an independent and adequately resourced internal audit function.<sup>16</sup> SPS 510 and APRA [Superannuation](#) Prudential Practice Guide SPG 200 *Risk Management* set out the requirements and provide guidance to RSE [licensee](#)'s in relation to internal audit.

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<sup>16</sup> Under SPS 510, APRA may approve alternative arrangements where APRA is satisfied that they will achieve the same objectives.

~~68-61.~~ When the RSE auditor is considering the scope and work involved in assurance engagements under SPS 310, APRA expects the RSE auditor to consider the extent to which the work of the internal audit function is likely to be relevant in the context of the engagement. By analogy, Auditing Standard ASA 610 *Using the Work of Internal Auditors*, sets out the requirements and provides guidance to the RSE auditor in considering the activities of the internal audit function and evaluating the effect, if any, on audit procedures. See also ASAE 3000 paragraph 55, ASAE 3100 paragraphs 37 and 38 and ASAE 3150 paragraphs 40 to 43 and 77 to 78.

## Report on Reasonable Assurance Requirements by the RSE Auditor

### Reporting Requirements

~~69-62.~~ SPS 310 paragraph ~~224~~(a) states the RSE auditor's report at a minimum is required to provide:

- (a) reasonable assurance:
  - (i) on the APRA ~~information required~~ Annual Returns by reporting standards made under the FSCOD Act as outlined in Attachment ~~AB~~ to SPS 310; ~~and~~
  - (ii) compliance with the legislative provisions identified in Attachment B of the SIS Act, SIS Regulations, Corporations Act, Corporations Regulations, FSCOD Act, and any additional conditions APRA has imposed on the RSE licensee's RSE license under section 29EA of the SIS Act; and
  - ~~(ii)~~(iii) on the annual financial statements of each RSE that is a SAF, prepared in accordance with relevant Australian Accounting Standards issued by the Australian Accounting Standards Board.

### Reasonable Assurance on Historical Financial/APRA ~~Annual Returns~~ Reporting Forms (ASA 805)

~~70-63.~~ In performing the reasonable assurance engagement on the ~~annual~~ APRA Reporting Forms Returns of the RSE, the RSE auditor is required to comply with all Australian Auditing Standards relevant to a reasonable assurance engagement of other historical financial information, adapted as necessary in the circumstances of the engagement. In applying these standards, the auditor has regard to any special considerations identified in ASA 805 that may be relevant to the engagement.

### Audit Evidence

~~71-64.~~ The RSE auditor obtains sufficient appropriate audit evidence<sup>17</sup> ~~as part of a systematic and iterative process,~~ that includes:

- (a) obtaining an understanding of the specified APRA Reporting Forms annual returns and individual data items included in these ~~annual~~ returns (subject matter), the intended use of the information included in the ~~annual~~ returns by the intended users, and the prudential requirements applicable to the preparation and submission of the ~~annual~~ returns.

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<sup>17</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to a compliance engagement.

- (a)(b) obtaining an understanding of the RSE licensee’s overall framework and interrelationships between prudential and reporting standards for managing risk including data risk and data quality.
  - (b)(c) obtaining an understanding of the RSE licensee’s system of internal control and the compliance function.
  - (c)(d) evaluating the controls over the preparation and compilation of the APRA ~~Reporting Forms~~ annual returns.
  - (d)(e) assessing the risk that information in the APRA ~~Reporting Forms~~ annual returns may be materially misstated.
  - (e)(f) responding to assessed risks and determining the nature, timing and extent of further evidence gathering procedures.
  - (f)(g) performing further evidence-gathering procedures clearly linked to the identified risks.
  - (g)(h) evaluating the sufficiency and appropriateness of evidence.
- 72.65. The RSE auditor exercises professional judgement in determining the nature, timing and extent of reasonable assurance procedures to gather sufficient appropriate evidence on which to base the reasonable assurance opinion.
- 73.66. A controls based assurance approach is often the most appropriate approach to adopt in these circumstances. However, where the RSE auditor determines that a material weakness exists in the RSE licensee’s internal controls designed to ensure reliable data is provided to APRA in the APRA ~~Reporting Forms~~ Annual Returns, and/or where the RSE auditor makes a determination based on effectiveness and/or efficiency, a substantive approach may be more appropriate.
- 74.67. Reasonable assurance procedures for obtaining audit evidence include, but are not limited to, testing of specific controls aimed at ensuring the data in the APRA ~~Reporting Forms~~ annual returns is reliable and prepared in accordance with APRA Prudential Standards and Reporting Standards. Reasonable assurance procedures may include observation, inspection, confirmation, recalculation, re-performance, analytical procedures, enquiry, obtaining independent corroborating information, testing of controls over the compilation of the APRA ~~Reporting Forms~~ annual returns, testing of controls over the extraction of data from the underlying accounting records (including all relevant year-end adjustments) and obtaining management representations.

#### *Evaluation of Findings*

- 75.68. The RSE auditor accumulates uncorrected misstatements identified during the engagement, other than those that are clearly trivial, for the purpose of evaluating, whether, individually or in the aggregate, whether uncorrected misstatements that have come to the RSE auditor’s attention, they are material to the reported information.<sup>18</sup> Materiality is to be applied in the context of paragraphs 384-447 of this Guidance Statement.
- 76.69. In evaluating whether or not the specified data in the APRA ~~Reporting Forms~~ annual returns, is, in all material respects, reliable and in accordance with the relevant APRA prudential and reporting standards, the RSE auditor exercises professional judgement, having regard to both the user and intended uses of the information in the APRA ~~Reporting Forms~~ annual returns.

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<sup>18</sup> See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraphs 10 and 11.

~~77.70.~~ The magnitude of a misstatement alone is only one factor used to assess the ~~materiality of a~~ misstatement. The RSE auditor evaluates each identified misstatement in the context of information relevant to users of the APRA ~~Reporting Form~~~~annual return~~, by considering qualitative factors and the circumstances in which each misstatement has been made.

~~78.71.~~ The RSE auditor may designate an amount below which misstatements ~~would be clearly trivial~~ need not be ~~accumulated~~~~aggregated~~, because the RSE auditor expects that the ~~accumulation~~~~aggregation~~ of such amounts clearly would not have a material effect on the reported ~~subject matter~~ information. In doing so, the RSE auditor needs to consider the fact that the materiality of misstatements involves qualitative as well as quantitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the reported information.

~~79.72.~~ In circumstances where the RSE auditor may conclude that information reported by the RSE licensee is not in accordance with the relevant APRA Prudential reporting standards. The RSE auditor discusses the matter with management and, depending how it is resolved, determines whether, and how, to communicate the matter in the auditor's reasonable assurance report.

#### Reasonable Assurance on Compliance (ASAE 3100 ~~or~~ ~~and~~ ASAE 3000)

~~80.73.~~ In performing the audit on the compliance requirements as specified above in paragraph ~~6374~~ ~~and reported under Part 2—Independent Auditor's Reasonable Assurance report on APRA Annual Return and Compliance: Part (B) Compliance~~, the RSE auditor is required to consider the requirements in ASAE 3000 and ASAE 3100.

#### *Audit Evidence*

~~81.74.~~ In a compliance engagement, evidence may be gathered through enquiry and observation, tests of controls, substantive testing, and representations received from management.<sup>19</sup> The amount of evidence from each source which is assessed by the RSE auditor to constitute sufficient, reliable evidence to reduce compliance engagement risk to an acceptable level is a matter for the RSE auditor's professional judgement.

~~82.75.~~ In a compliance engagement, sufficient appropriate evidence is obtained ~~as part of an iterative, and dynamic systematic engagement process involving which involves:~~

- (a) obtaining an understanding of the RSE licensee's business operations and its compliance environment which includes the key elements of the entity's compliance framework;
- (b) obtaining an understanding of the prudential requirements, and other engagement circumstances which, includes obtaining an understanding of internal controls over the preparation of the subject matter, evaluation of design, implementation and testing the effectiveness of controls that are relevant to the engagement;
- (c) obtaining an understanding of the internal compliance function where appropriate and any relevant testing of compliance controls performed as part of that function during the period. Evaluating the results of this testing and the level of reliance that can be placed on this work and the impact on further control and substantive procedures;
- (d) based on the understanding acquired under (a), (b) and (c), assessing the risks that the RSE licensee may be non-compliant with requirements as specified under ~~Part 2—~~

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<sup>19</sup> ~~—~~ The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to a compliance engagement.

[Independent Auditor's Reasonable Assurance report on APRA Annual Return and Compliance: Part \(B\) Compliance SPS 310](#);

- (e) responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures; and
- (f) performing further evidence gathering procedures clearly linked to the identified compliance engagement risks, using a combination of inspection, observation, confirmation, recalculation, reperformance and enquiry. Such further evidence gathering procedures may involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the activity or subject matter, tests of the operating effectiveness of controls.

**83.76.** In a compliance engagement the RSE auditor normally performs a combination of evidence gathering procedures that reflect a strategy to obtain planned levels of assurance from testing of the compliance framework, controls and substantive testing. It is unlikely that sufficient assurance may be obtained from only performing one type of testing. The type and extent of these procedures will be based on the complexity of the RSE licensee, nature of the business operations and initial risk assessment. The types of procedures that may be undertaken are:

- (a) walk throughs and controls testing in key risk areas;
- (b) substantive testing; and
- (c) enquiries of management and representations.

The results of the above testing are evaluated by the RSE auditor to ensure the evidence gathered is sufficient and appropriate for the purposes of the reasonable assurance engagement.

#### *Evaluation of Findings*

**84.77.** Where the RSE auditor becomes aware of material deficiencies in the RSE licensee's compliance framework they assess the impact on the risk of non-compliance with the prudential requirements as specified in [SPS 310 Part 2 – Independent Auditor's Report on APRA Annual Return and Compliance: Part \(B\) Compliance](#), and the implication for planning and performing the engagement.

**85.78.** If the RSE auditor becomes aware of material deficiencies in the compliance framework for example:

- (a) a limited or inadequate monitoring plan for key compliance controls over the period; and/or
- (b) a lack of staff training and awareness of the need to identify, assess and report compliance breaches

the RSE auditor needs to consider the following implications:

- (a) risk of non-compliance being increased;
- (b) amount and type of evidence gathering procedures to obtain sufficient appropriate evidence; and
- (c) reporting of material deficiencies to the responsible party and the intended users.

~~86.79.~~ The RSE auditor will evaluate any compliance breach with the prudential requirements to determine if the breach is material, and how this may impact on the RSE auditor's planned engagement approach.

~~87.80.~~ The RSE auditor normally considers the following factors in evaluating if a breach of the compliance requirements by the entity, is material:

- (a) size, complexity and nature of the entity's activities;
- (b) nature of the breach – one off or systemic;
- (c) evidence of a robust compliance framework in place to detect, rectify and report compliance breaches;
- (d) commonly accepted practice within the relevant industry;
- (e) regulatory, legislative or contractual requirements;
- (f) impact on the decisions of the intended users and stakeholders of the entity; and
- (g) specific terms of the compliance engagement.

#### **Format of Reporting Requirements**

~~If APRA has an approved form as specified under SPS 310, the auditor's report must be in the approved form. APRA may under SPS 310 provide approved forms in relation to the reporting requirements under paragraphs 19, 21, 22 and 23 of SPS 310 as well as other requirements as the prudential regulator deems appropriate.~~

~~88. — Refer to [apra.gov.au](http://apra.gov.au) website (Superannuation/Reporting Framework) for the latest version of the Prudential Standard SPS 310 *Audit and Related Matters* — Audit Report Form. This form is reviewed and updated annually as required by APRA.~~

### **Report on Limited Assurance Requirements by the RSE Auditor**

#### **Reporting Requirements**

~~89.81.~~ SPS 310 paragraph ~~22~~19(b) states the auditor's report at a minimum is required to provide:

- (a) limited assurance on:
  - (i) the APRA ~~information~~Annual Returns required by reporting standards made under ~~the~~ FSCOD Act as outlined in Attachment ~~AB~~ to SPS 310;
  - (ii) the RSE licensee's systems, procedures and internal controls that are designed to ensure that the RSE licensee has complied with all applicable prudential requirements, has provided reliable data to APRA as required under the reporting standards prepared under the FSCOD Act, and has operated effectively throughout the year of income; ~~and~~
  - ~~(iii) —~~ the RSE licensee's compliance with its ~~RMF~~risk management framework<sup>20</sup>; ~~and~~

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<sup>20</sup> — Refer to Prudential Standard SPS 220 *Risk Management* for the requirement for the RSE licensee to have an ~~an~~ RMF-risk management framework.

~~(iv)~~(iii) the RSE licensee's compliance with its ORFR strategy.<sup>21</sup>

#### **Inherent Limitations of Limited Assurance**

- 90.82. As stated in ASAE 3000, the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the procedures the RSE auditor performs in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.
- 91.83. There are inherent limitations in any internal control structure. Furthermore, fraud, error or non-compliance with laws and regulations may occur and not be detected. As the systems, procedures and controls to ensure compliance with APRA Prudential Requirements are part of the RSE's operations, it is possible that either the inherent limitations of the internal control structure, or weaknesses in it, impact on the effective operation of RSE's specific control procedures.
- 92.84. Projections of any evaluation of internal control procedures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions after the limited assurance report is signed, or that the degree of compliance may deteriorate.

#### **Limited Assurance on ~~Information under~~ APRA ~~Information/Annual~~ Returns (ASRE 2405)**

- 93.85. In performing the limited assurance procedures to report on the APRA ~~information~~Annual Returns as specified in paragraph ~~8292~~(a)(i) ~~and reported under the Independent Auditor's Limited Assurance Report on APRA Annual Returns and Compliance—Part 3(A)~~ that incorporate historical financial information at a MySuper product level, the RSE auditor needs to consider the requirements in ASRE 2405.
- 94.86. The RSE auditor obtains evidence, as part of a ~~systematic~~dynamic and iterative process directed by the risk assessment carried out during the planning phase of the engagement. The RSE auditor exercises professional judgement in determining the specific nature, timing and extent of limited assurance procedures to gather evidence on which to base the conclusion.
- 95.87. ~~It is most likely the~~ limited assurance procedures ~~ordinarily will~~ include consideration of the process used to prepare APRA Reporting Forms and the a review of specific controls aimed at ensuring the data in the APRA ~~Reporting Forms~~Annual Returns ~~are~~ reliable and prepared in accordance with APRA Prudential Standards and Reporting Standards. Limited assurance procedures may include analytical procedures, enquiry, limited testing of controls over the compilation of the APRA ~~Reporting Forms~~Annual Returns, limited testing of controls over the extraction of data from the underlying source systems and obtaining management representations.
- 96.88. If the RSE auditor has reason to believe that the historical financial information subject to limited assurance may be materially misstated, the RSE auditor shall carry out additional or more extensive procedures as are considered necessary to be able to express a limited assurance conclusion or to confirm that a modified report is required.
- 97.89. Materiality is to be applied as outlined in paragraphs 34-47 of this Guidance Statement. The RSE auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the RSE auditor's attention are material to the historical financial information.

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<sup>21</sup> ~~Refer to Prudential Standard SPS 114 Operational Risk Financial Requirement for the requirement for the RSE licensee to have an ORFR strategy.~~

### Limited Assurance on Compliance (ASAE 3100 and ASAE 3000)

~~98-90.~~ In performing the limited assurance engagement- on the compliance requirements as specified in paragraph ~~8292(a)(ii); and (iii) and (iv) and reported in the Independent Auditor's Limited Assurance Report on APRA Annual Return and Compliance – Part 3(B) Compliance – (A),(B),(C) and (D)~~, the RSE auditor is required to consider the requirements in ASAE 3000, ASAE 3100 and ASAE 31050 and other applicable standards on assurance engagements.

*Limited Assurance on Systems, Procedures and Internal Controls (ASAE 3000 and ASAE 3150~~applicable standards on assurance engagements~~)*

#### Obtaining Evidence Regarding Design of Systems, Procedures and Controls

~~99-91.~~ The RSE auditor needs to determine which of the systems, procedures and controls at the RSE licensee are necessary to achieve the control objectives relating to compliance with all applicable prudential requirements, reliable data under FSCOD Act and operating effectiveness throughout the period, and whether those controls are presented in the RSE licensee's description of its reporting system or identified by the RSE auditor and whether those controls were suitably designed. Under ASAE 3150, this determination is likely to include:

- (a) identifying the risks that threaten the achievement of the ~~identified~~ control objectives; ~~and~~
- (b) evaluating whether the controls as designed would be sufficient to mitigate those risks when operating effectively, in all material respects; ~~and~~
- ~~(b)(c)~~ evaluating whether any changes in controls as designed during the period would be sufficient to mitigate those risks, in all material respects.

~~100-92.~~ When evaluating the suitability of the design of a control, the RSE auditor considers the general understanding of the control activities as well as other components of control not within the scope of the engagement, such as knowledge of the control environment and information system, gained when planning the engagement. ASAE 3150 requires the RSE auditor at a minimum, to make enquiries of management or others within the entity regarding how the controls are designed to operate and examine the design specifications or documentation. A deficiency in the control environment could undermine the effectiveness of controls, and this needs to be considered in assessing the suitability of the design of those controls.

#### Assessment of Design Deficiencies

~~93.~~ Where the RSE auditor is unable to identify controls which are suitable or controls as designed are not suitable to achieve a control objective, if operating effectively, this may constitute a deficiency in relation to the suitability of design.

~~94.~~ ASAE 3150 requires the RSE auditor to design and perform additional assurance procedures until the auditor has obtained sufficient appropriate evidence to conclude on whether the design is suitable.

~~101-95.~~ In evaluating implementation of controls, the RSE auditor obtains sufficient appropriate evidence that the controls identified as necessary to achieving the identified control objectives, were implemented as designed as at the specified date. The auditor's evaluation of the design of controls may influence the nature, timing and extent of assurance procedures related to implementation. ASAE 3150 requires that the RSE auditor's assurance procedures include, at a minimum, making enquiries and observation. If the auditor determines that additional procedures, such as inspection of records and documentation, are required to dispel or confirm a suspicion that a material deficiency in the implementation of controls exists, the performance of such additional procedures shall not convert the engagement to a reasonable assurance

engagement. When designing and performing tests of implementation, the auditor determines whether controls implemented depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the implementation of those indirect controls.

#### Obtaining Evidence of Operating Effectiveness of Controls

96. Following the evaluation of whether the RSE licensee has internal controls designed to achieve the relevant control objectives, the appointed RSE auditor performs assurance procedures to obtain evidence about whether these controls have operated as designed throughout the financial year. The RSE auditor may consider how the controls were applied, the consistency with which they were applied, by whom they applied and the period over which the controls applied. In a limited assurance engagement the nature, timing and extent of tests of operating effectiveness, are usually limited to discussion with entity personnel and observation of the system in operation for deviations from the specified design. This may involve observation of, and enquiring about the operation of the controls for a small number of transactions or events.
97. In accordance with ASAE 3150, when reporting on operating effectiveness over the period, the RSE auditor tests those controls that the auditor has determined are necessary to achieve the relevant control objectives and assess their operating effectiveness throughout the period. The auditor's evaluation of the design of controls may influence the nature, timing, and extent of tests of operating effectiveness. Evidence obtained in prior engagements about the satisfactory operation of "material controls" (as defined in the standard) in the prior periods does not provide a basis for a reduction in testing of those controls, even if it is supplemented with evidence obtained during the current period.
98. Assurance procedures to obtain evidence on operating effectiveness may include discussion with RSE licensee's personnel (and obtaining written representations), observation of the system in operation, walk-through for an appropriate number of instances of material controls in operation and ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively, to identify any deviations from the specified design. The RSE auditor may also consider limited re-performance of controls.
- ~~102-99.~~ Alternatively, under ASAE 3150, the results of exception reporting, monitoring or other management controls may be examined to provide evidence about the operation of the control rather than directly testing it.
- ~~103-100.~~ ASAE 3150 requires the RSE auditor to apply professional judgement in determining the specific nature, timing and extent of procedures to be conducted in a limited assurance engagement, which will depend on the assessed risks of material deviations significant deficiencies in the operating effectiveness of controls. If the RSE auditor determines that additional assurance procedures are required to dispel or confirm a suspicion that a material deviations significant in the operating effectiveness of controls deficiency exists, the performance of such additional procedures shall does not convert the engagement to a reasonable assurance engagement as they relate to the reduction of risk to an acceptable level with respect to that matter alone.
104. When designing and performing tests of controls, the RSE auditor considers whether:
- (a) Performing other procedures in combination with enquiry to obtain evidence about:
    - (i) how the control was applied;
    - (ii) the consistency with which the control was applied; and
    - (iii) by whom or by what means the control was applied; and

- (iv) — the period of time over which the controls were applied; and
- (b) — Controls to be tested depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those indirect controls.
105. — When determining the extent of tests of controls, the RSE auditor considers matters including the characteristics of the population to be tested, which includes the nature of controls, the frequency of their application (for example, monthly, daily, a number of times per day), and the expected rate of deviation. Some procedures operate continuously while others operate only at particular times, for example, year end close off procedures. The tests of operating effectiveness need to be performed over a period of time that is adequate to determine that the control procedures are operating effectively over the period of intended reliance.
- 106.101. ASAE 3150 requires that Wherever control procedures have changed during the period subject to examination, the RSE auditor tests the operating effectiveness of both the superseded control(s) and the new control(s) and considers whether the new controls have been in place for a sufficient period to assess their effectiveness.
- 107.102. The RSE auditor generally adopts a ‘top down’ approach in gathering evidence, by making enquiries of key personnel, observing the RSE licensee’s operations, performing ‘walk-through’ tests of controls, obtaining written representations and inspecting relevant documentation, as appropriate, in order to achieve the following:
- (a) obtaining an understanding of the RSE licensee’s overall control environment and compliance framework.
  - (b) ascertaining whether the person(s) performing the control(s) possesses the necessary authority and competence to perform the control(s) effectively.
  - (c) identifying the internal compliance function(s) designed to ensure compliance with all applicable prudential requirements.
  - (d) identifying policies, procedures and controls designed to ensure compliance with all applicable Prudential Requirements, by reviewing documents such as the RSE licensee’s RMF, RMS and similar risk management policy documents issued by the RSE licensee in accordance with applicable prudential standards.
  - (e) identifying the processes used by the Board of the RSE licensee to support its Risk Management Declaration to APRA as outlined in SPS 220.
  - (f) identifying key Board and operational matters by reviewing the minutes of the RSE licensee’s Board, as well as minutes of any sub committees responsible, for example, for oversight of compliance and audit, held during the year and enquiring about matters discussed and outcomes from the RSE licensee’s Board decisions.
  - (g) identifying the internal compliance functions designed to oversee the provision of data to APRA in the RSE licensee’s APRA Reporting Forms Annual Returns.
  - (h) identifying significant processes for the preparation of the RSE licensee’s APRA Reporting Forms Annual Returns.
  - (i) identifying the key controls over these significant processes that are designed to ensure that reliable data is provided to APRA in the RSE licensee’s APRA Reporting Forms Annual Returns.

The above is not an exhaustive list, nor is it intended to direct the RSE auditor as to the conclusion over the RSE licensee’s internal controls.

~~RSE licensees have different systems and procedures in place to monitor compliance with specific prudential standards. Financial projections and estimates are likely to be part of the monitoring process, as the preparation of a full financial report is unlikely to be practical on a day by day or week by week basis. Varying degrees of precision may exist therefore in applying the monitoring process. Notwithstanding these differences, such systems seek to ensure that RSE licensee complies with all prudential standards on a continuous basis.~~

~~The way in which internal control is designed and implemented varies with a RSE licensee's size and complexity. Smaller RSE licensee's may use less formal means and simpler processes to achieve their control objectives.~~

- ~~— The RSE auditor gathers evidence in response to assessed risks with a focus on identifying key controls within the control systems design. The RSE auditor exercises professional judgement in determining the specific nature, timing and extent of limited assurance procedures to obtain sufficient appropriate evidence to reach a limited assurance conclusion.~~

~~108.103. Although the RSE auditor may consider the results of any tests of the operating effectiveness of controls conducted by the internal audit function when evaluating operating effectiveness, the auditor remains responsible for obtaining sufficient appropriate evidence to support the auditor's conclusion and, if appropriate, corroborate the results of such tests.~~

~~109.104. Interpretation of the word 'reliable' in the context of limited assurance on controls over the RSE licensee's APRA *Reporting Forms Annual Returns* has practical limitations in some circumstances. For many RSE licensee's, it is only at the financial year-end (or for RSE licensee's that are disclosing entities, also at the half year-end) that all the necessary accounting adjustments, such as accruals, prepayments, provisioning and valuations, are prepared and subjected to audit or review.~~

~~105. The RSE auditor enquires about whether there were any changes in internal control, or other matters, subsequent to the financial year-end date and up to the date of the RSE auditor's assurance report, that may have an impact on the RSE auditor's conclusion about the effectiveness of internal controls, and obtains written representations from management relating to such matters.~~

~~110.106. For further requirements and guidance in relation to obtaining evidence on operating effectiveness of controls, including on the use of sampling for selecting controls for testing operating effectiveness over a period, refer to ASAE 3150.~~

#### Nature and Cause of Deviations in Operating Effectiveness

~~107. ASAE 3150 sets out the requirements and provides guidance to the RSE auditor to assist in evaluating evidence and forming a conclusion on controls.~~

~~111.108. In accordance with ASAE 3150, the RSE auditor accumulates uncorrected, investigates the nature and cause of any deviations from the design identified in the operation of the controls and determines whether:~~

- ~~(a) identified deviations/deficiencies in the suitability of the design of controls to achieve the relevant control objectives are within the expected rate of deviation and are acceptable; therefore, the testing that has been performed provides an appropriate basis for concluding that the control is operating effectively throughout the specified period;~~
- ~~(b) deficiencies in the implementation of controls as designed, additional testing of the control or of other controls is necessary to reach a conclusion on whether the controls relative to a particular control objective are operating effectively throughout the specified period; and/or~~

- ~~(c)~~ deviations in the operating effectiveness of controls as designed testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.

In considering t~~The reporting of these matters the RSE auditor has regard to the requirements in ASAE 3150.~~

109. The RSE auditor evaluates, individually and in aggregate, whether internal control deficiencies and deviations that have come to the auditor's attention are material. The auditor exercises professional judgement, having regard to the intended users of the auditor's assurance report. Materiality is to be applied in the context of paragraphs 34-47 of this Guidance Statement.

110. In evaluating the severity of identified internal control deficiencies, the RSE auditor considers, based on materiality:

- (a) the likelihood that the relevant internal controls may fail to prevent or detect non-compliance with a Prudential Requirement, or a misstatement in the data being provided to APRA in Reporting Forms; and
- (b) the magnitude of the potential resulting non-compliance with a Prudential Requirement on the RSE licensee's overall compliance with applicable Prudential Requirements; and
- (c) the magnitude of the potential misstatement resulting from the internal control deficiency on the information reported in the APRA Reporting Forms.

The evaluation of the severity of a deficiency in internal control does not depend on whether a misstatement in the information in an APRA Reporting Form or non-compliance with a Prudential Requirement has actually occurred, but rather the likelihood that the RSE licensee's controls may fail to prevent or detect a material misstatement or material non-compliance with a Prudential Requirement.

#### *Limited Assurance on RMF (SPS 220)*

~~111.~~111. The objective of the RSE auditor's limited assurance engagement on the RSE licensee's compliance with its RMF is whether they have complied substantially with systems, structures, policies, processes and controls documented in the RMF and which are intended to identify, assess, manage, mitigate and monitor material risks that may affect the RSE licensee's ability to meet its obligations to beneficiaries for the period covered by the engagement. There is no ~~requirement or~~ expectation that the RSE auditor expresses assurance on the adequacy of the specific controls of the RMF.

~~112.~~112. The RSE auditor's limited assurance engagement on the compliance with the RMF may include the following procedures:

- (a) Obtaining an understanding of the RMF and the process to identify material risks including the operational risks outlined in CPS 230 Operational Risk Management.
- (b) Reviewing the RMF to determine at a high level whether it is broadly consistent with the minimum components outlined in SPS 220, CPS 230 and with the minimum material risk requirements as outlined in SPS 220 and CPS 230.
- (c) Reviewing the evidence to support the RSE licensee's maintenance of adequate financial, human and technical resources as outlined in SPS 220.

- (d) Reviewing the relevant risk appetite statement and RMS to confirm that they are up-to-date and approved by the RSE licensee Board.
- (e) Reviewing the processes (including monitoring and reporting procedures) the RSE licensee has in place to ensure ongoing compliance with the RMF and RMS. Reference to work performed on the RSE licensee's systems, procedures and controls to ensure compliance with prudential requirements may be useful in this circumstance.
- (f) Reviewing the evidence supporting the RSE's licensee's attestation in the Risk Management Declaration in relation to compliance with the RMF and RMS.

**114.113.** The RSE auditor may consider the measures in place which relate to the RSE licensee's monitoring of, and reporting on, specific matters incorporated into the RMF. Such a review may include the following matters:

- (a) Whether breaches of the RMF have been detected and reported by the monitoring systems. When breaches have been detected, whether such breaches are significant either in themselves or, when they are of a recurring nature and have not been rectified, whether their cumulative effect renders them to be a significant non-compliance matter.
- (b) Identifying systems which they use to ensure that business units and staff comply with the measures in the RMF on a day-to-day basis.

**115.114.** As part of the limited assurance engagement on compliance with the RMF, the RSE auditor may seek the following types of information and documentation:

- (a) Copies of the RMF documents that set out the RSE licensee's RMF during the period.
- (b) Details of changes to the RMF and the RMS and related policies and procedures and the reasons for the revisions.
- (c) Copies of the risk appetite statement and RMS that applied during the period covered by the engagement.
- (d) Copies of the comprehensive review report of the RMF performed at least every three years by an operationally independent competent person.
- (e) Copies of the RSE licensee's attestation in the Risk Management Declaration in relation to compliance with the RMF and RMS and any supporting evidence.
- (f) Documentation that identifies and describes the systems, policies, procedures and structures that are in place to manage identified risks and representations that such systems, policies, procedures and structures have been complied with during the period.
- (g) Minutes of the meetings of TCWG and sub-committees responsible for monitoring compliance with aspects of the RMF and the RMS.
- (h) Internal and external incident and breach reports, breach and complaints registers and follow up action taken to the extent that recorded items may indicate a failure to comply with the RMF and the RMS.
- (i) Internal audit reports.
- (j) Certifications made by the RSE licensee and relevant supporting documentation to substantiate compliance with the RMF and the RMS during the reporting period.
- (k) Other supporting evidence to confirm that the controls identified in the RMF and the RMS have been in place during the reporting period.

The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each RSE licensee.

~~116.~~ There are practical limitations in requiring the RSE auditor to express a conclusion as to the RSE licensee's compliance at all times with the RMF during the engagement period. However, the RSE auditor performs limited assurance procedures to the extent that the RSE auditor considers appropriate in order to obtain sufficient appropriate evidence as to the RSE licensee's compliance with the written descriptions within the RMF and the RMS throughout the period covered by the engagement.

~~117.~~ While the RSE auditor is not **required or** expected to review the adequacy of the RMF and the RMS, during the course of the limited assurance engagement the RSE auditor may become aware of significant deficiencies in the RMF and the RMS which they report to an appropriate level of the RSE licensee's management.

#### **~~Limited Assurance on~~ Operational Risk Financial Requirement (ORFR) Strategy (SPS 114)**

~~118.~~ SPS 114 requires the RSE licensee to implement satisfactory internal audit procedures and external audit arrangements to ensure compliance with, and the adequacy and effectiveness of the ORFR strategy. This requirement does not distinguish what matters must be addressed by internal audit procedures, and those that must be addressed by external audit arrangements. As this responsibility is placed on the RSE licensee it is appropriate to leave this to the RSE licensee to determine. The objective of the RSE auditor's limited assurance engagement on the RSE licensee's ORFR strategy is to ascertain whether the RSE licensee has complied with the policies, procedures and strategy contained within the ORFR strategy. There is no expectation that the RSE auditor expresses assurance on the adequacy of the specific contents of the ORFR strategy.

~~119.~~ SPS 114 sets out the minimum ORFR strategy inclusions. The RSE auditor should understand the ORFR strategy and its potential impact on the financial report when planning and performing their financial report audit. The RSE auditor's limited assurance engagement on the compliance with the ORFR strategy may include the following procedures:

- ~~(a) — Reviewing the ORFR strategy to determine at a high level whether it is broadly consistent with the minimum components as outlined in SPS 114.~~
- ~~(a) — Obtaining an understanding of the ORFR target amount and the process to identify operational risks within the RSE licensee's business operations.~~
- ~~(a) — Reviewing the documented strategy that sets out the RSE licensee's approach to determining, implementing, managing, monitoring and maintaining the ORFR target amount and in turn observing adherence to this approach. Reference to work already performed on the RSE licensee's compliance with maintaining an operational risk reserve at the required target amount in accordance with its ORFR strategy may be useful in this circumstance.~~
- ~~(a) — Reviewing the policies, procedures and controls in place to manage the financial resources held to meet the ORFR target amount and to ensure it remains at an appropriate level and is invested and deployed in accordance with the documented strategy.~~
- ~~(b)(a) — Reviewing the evidence supporting the RSE's licensee's attestation in the Risk Management Declaration in relation to compliance with all prudential requirements.~~

~~120.~~ Permissible uses of the ORFR have expanded over time to cover a wide range of circumstances related to managing the financial impact of operational risks that relate to a RSE. The RSE auditor should as part of the financial report audit engagement, specifically consider how the RSE licensee has used the ORFR and whether its use is consistent with APRA's permissible uses and the RSE's own ORFR strategy. As part of the limited assurance

~~engagement on compliance with the ORFR strategy, the RSE auditor may seek the following types of information and documentation:~~

- ~~(a) — Copies of the ORFR strategy document that applied during the period covered by the engagement.~~
- ~~(a) — Details of changes to the ORFR strategy and related policies and procedures and the reasons for the revisions.~~
- ~~(a) — Minutes of the meetings of TCWG and sub-committees responsible for monitoring compliance with the ORFR strategy.~~
- ~~(a) — Internal and external breach reports, breach registers and follow up action taken to the extent that recorded items may indicate a failure to comply with the ORFR strategy target amount and the need to implement a replenishment plan.~~
- ~~(a) — Copies of the RSE licensee's attestation in the Risk Management Declaration in relation to compliance with all prudential requirements and any supporting evidence.~~

~~121. — The above is not meant to represent an exhaustive list and there may be other evidence that is relevant to the specific circumstances of each RSE licensee.~~

~~122. — While the RSE auditor is not expected to review the adequacy of the ORFR (or target amount), during the course of the limited assurance engagement the RSE auditor may become aware of significant deficiencies in the ORFR target amount or policies, procedures and controls over the ORFR strategy which they report to an appropriate level of the RSE licensee's management.~~

~~118. —~~

### Format of Reporting Requirements

~~123.119. If APRA has an approved form as specified under SPS 310, the RSE auditor's limited assurance report must be in the approved form. — APRA may under SPS 310 set out information provide approved forms in relation to the reporting requirements under paragraphs ~~19, 21, 22 to and 25~~ of SPS 310 as well as such other requirements as the prudential regulator deems appropriate.~~

~~124.120. Refer to apra.gov.au website (Superannuation/Reporting Framework) for the latest version of the Prudential Standard SPS 310 Audit and Related Matters and the AUASB website under 'Other Publications' for the latest version of the 'Illustrative Auditors' Report – Prudential Standard SPS 310 Audit and Related Matters' Audit Report Form. This form is reviewed and updated annually as required by APRA.~~

### Written Representations

~~125.121. Prior to issuing the APRA Approved Form audit and review reports on the information Annual Returns and cCompliance, the RSE auditor obtains written representations, as are considered appropriate to matters specific to the RSE licensee, from TCWG and senior management~~the party responsible~~<sup>22</sup> for the RSE licensee.~~

~~126.122. These written representations are generally in the form of a representation letter. In obtaining and using these written representations, the auditor complies with the requirements of, as appropriate, ASA 580, ASRE 2405, and ASAE 3000, ASAE 3100 and ASAE 3150.~~

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<sup>22</sup> Management and, where appropriate, those charged with governance of the RSE Licensee.

## Communication

- ~~127-123.~~ It is the responsibility of the RSE auditor to make the RSE licensee aware, as soon as practicable, of any identified material misstatements in RSE licensee APRA ~~information~~ annual returns, material deficiencies in internal controls and instances of material non-compliance arising from the prudential reporting engagement.
- ~~128-124.~~ Such communications are made as soon as practicable, either orally or in writing. The RSE auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, the RSE auditor needs to document the communication.
- ~~129-125.~~ When, in the RSE auditor's judgement, TCWG do not respond appropriately within a reasonable period of time, the RSE auditor considers whether to modify the RSE auditor's ~~approved form~~ report.
- ~~130-126.~~ It is important that the RSE auditor understands the additional statutory responsibilities to report certain matters to APRA under Division 2 of Part 16 of the SIS Act. Failure to notify APRA as required represents a criminal offence, which attracts criminal penalties.
- ~~131-127.~~ Material findings (misstatements, control deficiencies and non-compliance) are reported to APRA and the RSE licensee's Board (or Board Audit Committee) as modifications to the RSE auditor's ~~approved form~~ assurance report.
- ~~132-128.~~ Under Auditing Standard ASA 260 *Communication with Those Charged With Governance (ASA-260)*, ASA 265 *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management (ASA-265)* and ASAE 3000, the RSE auditor communicates relevant matters of governance interest arising from the engagement to TCWG on a timely basis. Examples of such matters may include:
- ~~(a)~~ The general approach and overall scope of the engagement, or any additional requirements.
  - ~~(a)~~
  - (b) Fraud or information that indicates that fraud may exist.
  - ~~(c)~~ Significant deficiencies in internal controls identified during the engagement. A significant deficiency in internal control means a deficiency or combination of deficiencies in internal control that, in the RSE auditor's professional judgement is of sufficient importance to merit the attention of TCWG.
  - ~~(d)~~ Disagreements with management about matters that, individually or in aggregate, could be significant to the engagement.
  - ~~(e)~~ Expected modifications to the RSE auditor's ~~approved form~~ report.
- ~~133-129.~~ The RSE auditor informs TCWG ~~of the RSE licensee~~ of those uncorrected misstatements, other than clearly trivial amounts, aggregated by the RSE auditor during and pertaining to the engagement that were considered to be immaterial, both individually and in the aggregate, to the assurance engagement.

## Special Purpose Engagements

### Terms of Engagement

~~APRA may require the RSE licensee, by notice in writing, to appoint an auditor, who may be the existing RSE auditor or another auditor, as specified in APRA's notice, to provide a report on a~~

particular aspect of the RSE licensee's business operations, prudential requirements or the risk management framework.

134. — Following the determination by APRA of the specific area to be examined, the RSE auditor, APRA and the RSE licensee agree on the terms of the engagement in accordance with the requirements of applicable AUASB Standards. These arrangements are legally binding and include the required terms of engagement specified in SPS 310.
135. — The RSE auditor accepts the engagement only when the RSE auditor is satisfied that the RSE auditor and the engagement team, if applicable, have met the relevant ethical requirements relating to the assurance engagement. The concept of independence is important to the RSE auditor's compliance with the fundamental ethical principles of integrity and objectivity and the RSE auditor must be able to meet the independence requirements stipulated under both SPS 510 and ASA 102 *Compliance with Ethical Requirements when Performing Audits, reviews and Other Assurance Engagements*.
136. — An engagement letter (or other suitable form) helps to avoid misunderstandings with respect to the engagement and confirms both the RSE licensee's and the RSE auditor's understanding of the terms of the engagement, and the RSE auditor's acceptance of the appointment. Both parties sign the engagement letter to acknowledge that it is a legally binding contract.
137. — To ensure that there is a clear understanding regarding the terms of the engagement, the following are examples of matters to be agreed:
- (a) — APRA is to identify the scope of the RSE licensee's business operations, risk management framework or prudential requirements to be the subject of the engagement.
  - (b) — The RSE auditor, APRA and the RSE licensee are to agree on the objectives of the engagement, key features and criteria of the area(s) to be examined, and the period to be covered by the engagement.
  - (c) — APRA is to identify clearly the level of assurance required, that is, limited or reasonable assurance.
  - (d) — The format of reports required (for example, long and/or short form reports) and other communication of results of the engagement.
  - (e) — Responsibility of TCWG for the subject matter of the engagement.
  - (f) — Understanding of the inherent limitations of an assurance engagement.

### **Reporting Requirements**

138. — The RSE auditor appointed for a special purpose engagement under paragraph 29 of SPS 310 must provide limited assurance on the matters upon which the RSE auditor is required to report unless otherwise determined by APRA and advised to the RSE licensee in writing.
139. — Under paragraph 30 of SPS 310, The RSE auditor appointed for a special purpose engagement must submit, within three months of the date of the notice commissioning the report, the RSE auditor's report simultaneously to APRA and to the Board of the RSE licensee, unless otherwise determined by APRA.

### **Format of Reporting Requirements**

140. — The format of the special purpose assurance report may vary depending on the type of engagement: that is, reasonable or limited assurance, as well as the subject matter and the findings. The RSE auditor has regard to the requirements, guidance and illustrative examples

of reports provided in relevant AUASB Standards—Auditing Standards, ASREs and ASAEs, as applicable, when preparing the special purpose assurance report.

- 141.—AUASB Standards do not require a standardised format for special purpose reporting under SPS 310. Instead, these Standards identify the basic elements to be included in the RSE auditor's report. Ordinarily, the RSE auditor adopts a long form style of reporting and the report may include a description of the terms of the engagement, materiality considerations applied, the assurance approach and an other matter paragraph which may include findings relating to particular aspects of the engagement and, in some cases, recommendations.

The RSE auditor's assurance report is to be restricted to the parties that have agreed to the terms of the special purpose engagement, namely the RSE licensee and APRA, as well as other parties with whom APRA is lawfully entitled to share the information, by means of an emphasis of matter paragraph required by ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

## Transitional Arrangements

### Period for submitting auditor's reports and transitional arrangements

- 142.—The RSE auditor must ensure they provide the auditor's report to the Board of the RSE licensee within sufficient time to enable the RSE licensee to submit the auditor's report to APRA as follows:

143.—for years of income ending on or after 1 July 2013 but before 1 July 2015

144.—within four months after the end of the year of income to which the report relates; and

145.—for years of income ending on or after 1 July 2015

within three months after the end of the year of income to which the report relates.

## Other Reporting Responsibilities

- 146.130. The RSE auditor ~~also~~ has certain obligations and responsibilities under section 129 of the SIS Act to report a contravention of the SIS Act or the regulations to a trustee of the RSE licensee and APRA that may have occurred, may be occurring, or may occur, in relation to the RSE licensee that is of such a nature that it may affect the interests of members or beneficiaries of the entity. The RSE auditor must immediately inform ~~at~~ the trustee of the RSE and APRA about the matter in writing, unless the RSE auditor has reasonably concluded that the RSE licensee has already appropriately communicated the contravention to ~~the trustee and~~ APRA.

- 147.131. The RSE auditor also has certain obligations and responsibilities under sections 130 and 130AA of the SIS Act in relation to the RSE licensee's solvency and when the RSE auditor must inform APRA and the ~~trustee of the~~ RSE licensee about such matters.

- 148.132. Whilst conducting the audit of a RSE and associated RSE licensee, the RSE auditor may have other regulatory obligations that stem from the RSE licensee's other financial services regulatory requirements. The RSE auditor should ensure there is a knowledgeable and co-ordinated approach taken in respect of these requirements. Examples of other obligations might include Managed Investment Scheme compliance plan or Australian Financial Services License obligations.

## Appendix 1: Risk identification and assessment

This Guidance Statement does not deal with the audit of RSE financial reports under Chapter 2M of the Corporations Act 2001 (see paragraph 6). However, paragraph 22 and Attachment A to SPS 310 require the auditor to ensure that information required by SRF 320.0 and SRF 330.0 is consistent with those audited financial reports.

Paragraph 22 of SPS 310 and Attachment A also require the audit of the financial report of small APRA funds and individual member approved deposit funds.

Audits of RSE financial reports should be conducted in accordance with the Australian Standards on Auditing (ASAs) issued by the AUASB. The following industry specific guidance supplements the ASAs for RSE audits.

The identification and assessment of risks is a key element of the audit of RSE financial reports. Identifying and assessing risks and gaining an understanding of the control environment will determine the nature and extent of controls and substantive testing.

In identifying and assessing risks, the auditor may consider matters such as:

1. The valuation of unlisted assets such as property, infrastructure, credit and equity<sup>23</sup>;
2. The appropriate disclosure of:
  - (a) the categorisation of financial assets and liabilities<sup>24</sup>;
  - (b) credit, market and liquidity risk for financial assets<sup>25</sup>; and
  - (c) application of the fair value hierarchy for financial assets<sup>26</sup>.
3. Any tax consequences from realization of investments and distributions to members are appropriately recognised and disclosed<sup>27</sup>;
4. The adequacy of the disclosure of income and expenses, including amounts charged through unit price spreads<sup>28 29</sup>;
5. Possible errors in units and unit prices for contributions, benefits and other transactions, and at year end<sup>30</sup>;
6. The determination of defined benefit liabilities and benefit payments<sup>31</sup>;
7. The adequacy of the level of disaggregation information necessary to explain the risks and benefit arrangements relating to different categories of members<sup>32</sup>;

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<sup>23</sup> APRA highlighted the need to address risks related to valuation governance and liquidity management in its report.

<sup>24</sup> See also AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement*.

<sup>25</sup> See paragraphs 31 to 42 of AASB 7 *Financial Instruments: Disclosure*.

<sup>26</sup> See paragraphs 67 to 90 of AASB 13 *Fair Value Measurement*.

<sup>27</sup> See AASB 112 *Income Taxes*, including paragraphs 52A and 82A.

<sup>28</sup> A superannuation entity shall disclose information that provides users with a basis for understanding the nature and amounts of income and expenses (see paragraph 22 of *AASB 1056 Superannuation Entities*).

<sup>29</sup> Application and redemption prices for a product differ to cover transaction costs (e.g. brokerage) to the extent they are expected to be incurred to buy investments in a growing fund or sell investments in a declining fund. Unit prices should be set and applied equitably and using a sound and reasonable process. See also pages 31, 32, 34, 35 and 62 on transaction costs in *Unit pricing: Guide to good practice: Joint ASIC and APRA Guide: Updated August 2008*.

<sup>30</sup> See also *Unit pricing: Guide to good practice: Joint ASIC and APRA Guide: Updated August 2008*.

<sup>31</sup> See also paragraph 17, 23 and 25 of *AASB 1056 Superannuation Entities*.

<sup>32</sup> A superannuation entity shall disclose disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members (see paragraph 32 of *AASB 1056 Superannuation Entities*). As well as information for sub-funds and products, this could for example include risks and exposures on assets held through unconsolidated controlled pooled superannuation trusts.

8. Any gaps in controls and processes where an external investment custodian or manager is used<sup>33</sup>;
9. The appropriate allocation of assets between sub-funds and products and whether there are any deficiencies of assets to meet liabilities<sup>34</sup>; and
10. The adequacy of systems and processes to properly identify matters as complaints rather than as 'enquiries', and to identify systemic issues across complaints or in an individual complaint.

RSEs should hold reserves on their Statement of Financial Position to cover operational risks. Paragraph 22 and Attachment A to SPS 310 also require the auditor to provide reasonable assurance on the information required by SRS 114.1 *Operational Risk Financial Requirement*. The auditor should consider weaknesses in operational risk controls as they can result in operational risk incidents that lead to operational risk losses. These include information security, cyber-security risks and the potential loss of member information<sup>35</sup>.

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<sup>33</sup> See GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.

<sup>34</sup> This can affect whether there are unrecognised deficiencies. See also the duties of trustees of RSEs under s52(2) of the *Superannuation Industry (Supervision) Act 1993*. See also paragraph 32 of AASB 1056 *Superannuation Entities*.

<sup>35</sup> See also CPS 230 *Operational Risk Management*, SPS 114 *Operational Risk Financial Requirement* and CPS 234 *Information Security*.

**Appendix 1**

(Ref: Para.5, 6, 72, 82, 96, 101, 117 and 123)

**SUBJECT MATTER, CRITERIA, LEVEL OF ASSURANCE AND APPLICABLE AUASB STANDARDS FOR ENGAGEMENTS**

| SPS 310   | Subject Matter  | Criteria  | Level of Assurance   | Applicable AUASB Standards | Standard Report   |
|-----------|---|---|----------------------|----------------------------|---|
| 19(a)(i)  | Annual financial statement audit of each RSE.                       | Australian Accounting Standards issued by the AASB.   | Reasonable assurance | ASA suite                  | Refer para 6 of GS 002. Audit Report Form—Part 1 Financial Statements on <a href="http://apra.gov.au">apra.gov.au</a> website |
| 19(a)(ii) | Annual information for each RSE under FSCOD Act reporting standards | SRS 114.1 <i>Operational Risk Financial Requirement</i><br>SRS 320.0 <i>Statement of Financial Position</i><br>SRS 330.0 <i>Statement of Financial Performance</i><br>SRS 530.0 <i>Investments</i><br>SRS 530.1 <i>Investments and Investment Flows</i> (applies only for 2013–2014)<br>SRS 531.0 <i>Investment Flows</i><br>SRS 602.0 <i>Wind-up</i> (only applies to wind-ups)<br>SRS 800.0 <i>Financial Statement</i> (Applies only to small APRA funds and single member approved deposit funds)<br>SRS 801.0 <i>Investments and Investment Flows</i> (Applies only to small APRA funds and single member approved deposit funds) | Reasonable assurance | ASA 805                    | Refer para 72 of GS 002. Audit Report Form—Part 2(A) Annual Return at <a href="http://apra.gov.au">apra.gov.au</a> website    |

Guidance Statement GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities*

| SPS 310    | Subject Matter   | Criteria   | Level of Assurance   | Applicable AUASB Standards          | Standard Report   |
|------------|--|--|----------------------|-------------------------------------|---|
| 19(a)(iii) | Compliance with provisions of the:<br>SIS Act, SIS Regulations,<br>Corporations Act,<br>Corporations Regulations,<br>FSCODA Act and<br>conditions imposed under<br>section 29EA of the SIS Act | Includes but is not limited to:<br><br>Specific sections and conditions of the SIS Act and SIS Regulations<br>Specific sections of the Corporations Act 2001 and Corporations Regulations<br>FSCOD Act reporting standards<br>Refer detailed criteria as listed in the APRA Audit Report Form available on <a href="http://apra.gov.au">apra.gov.au</a> website (Superannuation/Reporting Framework) | Reasonable assurance | ASAE 3000<br>ASAE 3100              | Refer para 82 of GS 002. Audit report Form—Part 2(B)<br>Compliance on <a href="http://apra.gov.au">apra.gov.au</a> website  |
| 19(b)(i)   | Annual information for each RSE under FSCOD Act reporting standards  | SRS 330.2 Statement of Financial Performance<br>SRS 533.0 Asset Allocation (in respect of MySuper investment options only)<br>SRS 540.0 Fees (in respect of MySuper investment options only)<br>SRS 702.0 Investment Performance (in respect of MySuper investment options only)<br>SRS 703.0 Fees Disclosed (in respect of MySuper products only)   | Limited assurance    | ASRE 2405                           | Refer para 96 of GS 002. Audit Report Form—Part 3(A) Annual Return on <a href="http://apra.gov.au">apra.gov.au</a> website  |
| 19(b)(ii)  | RSE licensee's systems, procedures and internal controls   | To ensure the following:<br>Complied with all applicable prudential requirements<br>Provided reliable data under FSCOD Act<br>Operated effectively throughout the year of income in relation to all applicable prudential requirements   | Limited assurance    | ASAE 3000<br>ASAE 34X<br>X-Controls | Refer para 101 of GS 002. Audit Report Form—Part 3(B)<br>Compliance on <a href="http://apra.gov.au">apra.gov.au</a> website |

Guidance Statement GS 002 *Audit Implications of Prudential Reporting Requirements for Registrable Superannuation Entities*

| SPS 310    | Subject Matter  | Criteria  | Level of Assurance | Applicable AUASB Standards | Standard Report  |
|------------|---|---|--------------------|----------------------------|--|
| 19(b)(iii) | Compliance with Risk Management Framework (RMF)               | SPS 220 <i>Risk Management</i>                        | Limited assurance  | ASAE 3000<br>ASAE 3100     | Refer para 117 of GS 002. Audit Report Form—Part 3(B) Compliance on <a href="http://apra.gov.au">apra.gov.au</a> website |
| 19(b)(iv)  | Compliance with Operational Risk Financial Requirement (ORFR) | SPS 114 <i>Operational Risk Financial Requirement</i> | Limited assurance  | ASAE 3000<br>ASAE 3100     | Refer para 123 of GS 002. Audit Report Form—Part 3(B) Compliance on <a href="http://apra.gov.au">apra.gov.au</a> website |

## Appendix 2

(Ref: Para.37)

### ~~EXAMPLE OF AN ENGAGEMENT LETTER – RSE LICENSEE APRA ANNUAL RETURN AND COMPLIANCE REASONABLE AND LIMITED ASSURANCE ENGAGEMENTS~~

~~For Reporting Engagements Undertaken Pursuant To Australian Prudential Regulation Authority – Prudential Standard SPS 310 *Audit and Related Matters*.~~

~~The following example engagement letter is for use as a guide only, in conjunction with the considerations described in GS 002 *Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities*.~~

~~To [Title of Those Charged with Governance<sup>36</sup>] of [RSE Licensee]~~

~~The *Superannuation Industry (Supervision) Act 1993* (SIS Act), *Superannuation Industry (Supervision) Regulation 1994* (SIS Regulations), the *Corporations Act 2001* (Corporations Act), *Corporations Regulations 2001* (Corporations Regulations), Section 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act) and the Australian Prudential Regulation Authority (APRA) Prudential Standard SPS 310 *Audit and Related Matters* (SPS 310) identify APRA’s reporting requirements for RSE licensees and the RSE auditor.~~

~~I set out below, in general terms, my understanding of the terms and objectives of this engagement. A separate engagement letter is issued in relation to my audit of the [RSE Licensee’s] financial statements [and half year review] appointment(s) under the *Superannuation Industry (Supervision) Act 1993*.~~

#### ~~Scope~~

~~APRA has requested you to obtain from me a:~~

~~(a) — reasonable assurance addressing:~~

~~(i) — the annual information, relating to each RSE, required under the reporting standards made by APRA under the FSCOD Act that are identified in Attachment B to SPS 310 as requiring reasonable assurance; and~~

~~(ii) — compliance with provisions of the SIS Act, SIS Regulations, Corporations Act, *Corporations Regulations 2001*, FSCOD Act, and additional conditions imposed under section 29EA of the SIS Act, that are specified in an approved form; and~~

~~(b) — limited assurance addressing:~~

~~(i) — the annual information, relating to each RSE, required under the reporting standards made by APRA under the FSCOD Act that are identified in Attachment B to SPS 310 as requiring limited assurance;~~

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<sup>36</sup> Amend this term to reflect the appropriate title for those charged with governance, for example, Board of Directors or Trustees. Insert appropriate title, when prompted, throughout the letter.

- (ii) ~~the RSE licensee's systems, procedures and internal controls that are designed to ensure that the RSE licensee has complied with all applicable prudential requirements, has provided reliable data to APRA as required under the reporting standards prepared under the FSCOD Act, and has operated effectively throughout the year of income;~~
- (iii) ~~the RSE licensee's compliance with its risk management framework; and~~
- (iv) ~~the RSE licensee's compliance with its operational risk financial requirement (ORFR) strategy.~~

~~The RSE auditor's reasonable and limited assurance report will cover the same period as the annual financial statements of the [RSE Licensee] as required under SPS 310 and are to be issued within four months of the reporting date<sup>37</sup>.~~

~~For the purposes of the Prudential Standard, 'reasonable assurance' and 'limited assurance' are defined in accordance with relevant Auditing and Assurance Standards Board (AUASB) standards and guidance.~~

#### **~~Responsibility of [Those charged with Governance]~~**

~~The [Title of those charged with governance] of [RSE Licensee] are responsible for:~~

~~The preparation and lodgement of the APRA Annual Returns and for such internal controls as the [trustee determines / trustees determine] to be necessary to enable the preparation of these forms free from material misstatement, whether due to fraud or error. The APRA Annual Returns have been prepared for the purposes of fulfilling the [trustee's / trustees'] reporting requirements pursuant to the FSCOD Act Reporting Standards.~~

~~Complying with the requirements of the SIS Act, SIS Regulations, the Prudential Standards, the Reporting Standards made under section 13 of the FSCOD Act Reporting Standards, Corporations Act and Corporations Regulations.~~

~~Establishing and maintaining systems, procedures and internal controls to ensure compliance with all applicable APRA prudential requirements, providing reliable data to APRA as required under the reporting standards prepared under the FSCOD Act, and that the systems, procedures and controls have operated effectively throughout the year of income.~~

~~Compliance with its risk management framework (RMF) and the operational risk financial requirement (ORFR) strategy, which includes providing APRA with a Risk Management Declaration, as set out in Attachment B to APRA Prudential Standard SPS 220 *Risk Management* (SPS 220).~~

~~Adjusting the APRA Annual Return to correct misstatements identified by me and for affirming to me in its representation letter that they believe the effects of unrecorded misstatements are immaterial, individually and in aggregate, to the APRA Annual Return as a whole.~~

~~Apprising me of all allegations involving financial improprieties received by management or those charged with governance (TCWG) (regardless of the source or form and including,~~

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<sup>37</sup> ~~As outlined in Attachment A to SPS 310, for the years ending on or after 1 July 2015, the RSE auditor's reasonable and limited assurance reports must be issued within three months.~~

~~without limitation, allegations by “whistle-blowers,” employees, former employees, analysts, regulators or others), and providing me full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading me, or other allegations of illegal acts or fraud that could result in a misstatement of the Annual Return, non-compliance or otherwise affect the financial reporting of the RSE licensee. If the Trustee limits the information otherwise available to me under this paragraph (based on the Trustee’s claims of attorney/client privilege, work product doctrine, or otherwise), the Trustee will immediately inform me of the fact that certain information is being withheld from me. Any such withholding of information could be considered a restriction on the scope of the audit and may prevent me from opining on the RSE licensee’s APRA Annual Return or the Trustee’s compliance; alter the form of report I may issue on the APRA Annual Return or compliance; or otherwise affect my ability to continue as the RSE licensee’s independent auditor. I will disclose any such withholding of information to TCWG.~~

### **~~RSE Auditor’s Responsibility~~**

~~I will conduct the audit in accordance with Australian Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the APRA Annual Return are free of material misstatement, whether due to fraud or error and whether [TCWG] have maintained compliance with the Acts and Regulations, the RMF and ORFR strategy. There are inherent limitations in the audit process, including, for example, the use of judgement and selective testing of data and the possibility that collusion or forgery may preclude the detection of material error, fraud, illegal acts or non-compliance. Accordingly, there is some risk that a material misstatement of the financial statements, APRA Annual Return and non-compliance may remain undetected. Also, an audit is not designed to detect fraud or error that is immaterial to the APRA Annual Return.~~

~~As the RSE auditor of the financial statements of [RSE Licensee], I carry out sufficient procedures to enable me to form an opinion on the state of [RSE Licensee]’s affairs and its results and to report thereon to the members and beneficiaries of [RSE Licensee] in accordance with the requirements of the SPS 310. Although my audit [and review] under SPS 310 will include such review of [RSE Licensee]’s systems of accounting and internal control and performing such tests and enquiries as I consider necessary, these audit [and review] procedures are not designed to form an opinion or conclude on the systems of accounting and internal control taken as a whole.~~

~~My audit [and review] procedures under SPS 310 therefore not designed to enable me to express an opinion on the adequacy of systems and procedures operating within [RSE Licensee] to generate the [RSE Licensee]’s APRA Annual Returns pursuant to APRA reporting requirements applicable to the RSE licensee; nor are they designed to enable me to conclude on the existence or adequacy and operating effectiveness of systems, procedures and controls operating within [RSE Licensee] to generate reliable financial and statistical information and to ensure compliance with all Prudential Requirements; nor are my procedures designed to enable me to conclude as to [RSE Licensee]’s compliance with its RMF and ORFR.~~

~~Therefore, in order to satisfy all APRA reporting requirements as specified in SPS 310, I shall have to carry out additional procedures over and above those which are performed in my~~

~~capacity as the RSE auditor undertaking the financial statement audit [and review] under SPS 310. These additional procedures will include a review of [RSE Licensee]'s management systems and performing such tests and enquiries as I consider necessary in the circumstances.~~

~~Despite my involvement in examining the [RSE Licensee]'s systems of control, it must be appreciated that it is the responsibility of [TCWG] of the [RSE Licensee] to establish and maintain all of [RSE Licensee]'s internal control systems (refer to *Responsibility of TCWG* above). All such systems have their limitations and, this being so, errors or irregularities may occur and which may not be detected. My work is not to be relied upon for the purposes of discovering fraud, error, or non-compliance with laws and regulations, although I shall report to the appropriate level of management any fraud, error, or non-compliance that may be identified as a result of my audit or review.~~

~~As part of my procedures, I shall request representations from management and, where appropriate, TCWG, concerning assertions made in connection with the engagement.~~

~~After the completion of my reasonable and limited assurance report, it is my normal practice to report any matters of significance, together with suggestions for their rectification and any recommendations I may have on the systems, procedures and controls in general. However, as my examination will be limited to the audit and review in relation to matters set out in the Scope section above, you cannot assume that any matters reported to you indicate that there are no additional matters or matters that you should be aware of in meeting your responsibilities.~~

~~I will conduct the entirety of my audit [and review] for which the [RSE Licensee] engages me in a manner that ensures the most efficient use of resources, wherever possible.~~

**~~(a)(i) Reasonable Assurance on APRA Annual Return(s)~~**

~~My responsibility is to express an opinion on the APRA annual return(s) as specified, based on my audit. The APRA annual return(s) are prepared for the purpose of fulfilling the reporting requirements of [RSE Licensee] under the FSCOD Act Reporting Standards. I shall conduct my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to assurance engagements and plan and perform the audit to obtain reasonable assurance whether, in all material respects, the APRA annual return present a consistent view of the results of [RSE Licensee]'s operations for the year and financial position at reporting date, in accordance with the provisions of the FSCOD Act Reporting Standards, and, to the extent that they do not contain any requirements to the contrary, Australian Accounting Standards.~~

~~My audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the APRA annual return(s). The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the amounts and disclosures in the relevant APRA annual return, whether due to fraud or error. In making those risk assessments, I consider internal controls relevant to [RSE Licensee]'s preparation and presentation of the amounts and disclosures in the relevant APRA annual return 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 [RSE Licensee]'s internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by [Title of TCWG], as well as evaluating the overall presentation of the amounts and disclosures in the relevant APRA annual return.~~

**~~(a)(ii) Reasonable Assurance on Compliance~~**

~~My responsibility is to express an opinion on the [trustee's / trustees'] compliance with the applicable requirements of the SIS Act, SIS Regulations, FSCOD Act Reporting Standards, Corporations Act and Corporations Regulations as prescribed by APRA and based on my audit. My audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and ASAE 3100 *Compliance Engagements*). These Standards require that I comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the [trustee / trustees] of the [RSE Licensee] have, in all material respects complied with the specific requirements as listed in Part 2(B) of the Independent Auditor's Reasonable Assurance report as issued by APRA.~~

~~My procedures included examination, on a test basis, of evidence supporting compliance with those specific requirements of the SIS Act, SIS Regulations, FSCOD Act Reporting Standards, Corporations Act and Corporations Regulations.~~

~~These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and SIS Regulations, FSCOD Act Reporting Standards, Corporations Act and Corporations Regulations apart from those specified.~~

**~~(b)(i) Limited Assurance on APRA Annual Return~~**

~~My responsibility is to express a conclusion on the APRA Annual Return(s) as specified. The APRA annual return(s) are prepared for the purpose of fulfilling the reporting requirements of [RSE Licensee] under the FSCOD Act Reporting Standards. I shall conduct my review in accordance with ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, which requires me to comply with the requirements of the applicable code of professional conduct of a professional accounting body.~~

~~I shall conduct my review, pursuant to the FSCOD Act Reporting Standards, of the APRA Annual Return(s) in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that the relevant forms are not prepared, in all material respects, in accordance with the FSCOD Act Reporting Standards used. No opinion is expressed as to whether the FSCOD Act Reporting Standards used are appropriate to the needs of the [RSE Licensee].~~

~~My review consists primarily of making enquiries of [RSE Licensee]'s personnel and applying analytical and other review procedures. I shall perform my review procedures having regard to relevant standards and guidance issued by the Auditing and Assurance Standards Board.~~

**~~(b)(ii), (iii) and (iv) Limited Assurance on Compliance~~**

~~My responsibility is to perform a review as required by SPS 310, in relation to the matters set out under *paragraph (b)(ii), (iii) and (iv) of the Scope* section of this letter, and to express a conclusion based on my review.~~

~~I shall conduct my review in accordance with applicable Australian Standards on Assurance Engagements (ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ASAE 3100 *Compliance Engagements*), in order to state whether, on the basis of the procedures described, anything has come to my attention that causes me to believe that [RSE Licensee] has not complied, in all material respects, with its responsibilities~~

~~and reporting requirements. These standards require me to comply with relevant ethical requirements relating to assurance engagements.~~

~~My review consists primarily of making enquiries of [RSE Licensee]'s personnel and applying analytical and other review procedures. I shall perform my review procedures having regard to relevant standards and guidance issued by the Auditing and Assurance Standards Board.~~

### **~~RSE Auditors' obligations to report matters to APRA~~**

~~In accordance with sections 129 and 130 of the SIS Act, if during the course of, or in relation to my audit I form the opinion that:~~

~~(v) — it is likely that a contravention of the SIS Act or the FSCOD Act or those sections of the Corporations Act 2001 set out in section 38A of the SIS Act may have occurred, be occurring, or may occur in the future; or~~

~~(vi) — the financial position of the RSE may be, or may be about to become unsatisfactory~~

~~then I must notify [TCWG of the RSE] and APRA in writing. I am only required to report (i) above to APRA in writing when I form the opinion that it may affect the interests of members or beneficiaries of the RSE licensee.~~

~~In accordance with section 130A of the SIS Act, I may provide information to APRA obtained in the course of performing my audit work in respect of the RSE licensee and [TCWG] that I consider will assist APRA in performing its duties under the SIS Act or FSCOD Act.~~

~~If during my audit I form an opinion that there has been a failure by the employer sponsor or [TCWG] of the RSE to implement an actuarial recommendation relating to required contributions to the RSE licensee by the employer sponsor, I am required under section 130C of the SIS Act to advise [TCWG] in writing. If I determine that it may affect the interests of the RSE licensee's members or beneficiaries, then I must also notify APRA about this in writing.~~

### **~~Timing~~**

~~The SIS Act and SPS 310 requires the RSE licensee's to complete their financial report and lodge the APRA annual returns together with the relevant audit and review reports within four months<sup>38</sup> after the end of the financial period.~~

~~The SIS Act imposes strict liability provisions that enable APRA to impose fines for breaches of these requirements. This includes the requirement under section 35AB(1) of the SIS Act for [TCWG] of the RSE licensee to provide the RSE auditor with information relating to their report no more than 14 days after the information is requested.~~

~~It is most important, therefore, that all information requested of [TCWG], employer and the RSE licensee's administrator be provided to me on a timely basis, so as to enable the RSE licensee's reporting requirements to be met.~~

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<sup>38</sup>—As outlined in Attachment A to SPS 310, for the years ending on or after 1 July 2015, the RSE auditor's reasonable and limited assurance reports must be issued within three months.

### **Inherent Limitations**

~~A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently will not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I shall not express an audit opinion.~~

~~There are inherent limitations in any internal control structure, and fraud, error or non-compliance with laws and regulations may occur and not be detected. As the systems, procedures and controls to ensure compliance with APRA prudential requirements are part of the business operations of [RSE licensee], it is possible that either the inherent limitations of the general internal control structure, or weaknesses in it, can impact on the effective operation of the specific control procedures of [RSE licensee].~~

~~Furthermore, projections of any evaluation of internal control procedures to future periods are subject to the risk that control procedures may become inadequate because of changes in conditions, or that the degree of compliance may deteriorate. Consequently, there are inherent limitations on the level of assurance that can be provided.~~

~~Accounting records and data relied on for prudential reporting and compliance are not continuously audited and do not necessarily reflect accounting adjustments necessary for end of reporting period financial report preparation, or events occurring after the end of the reporting period.~~

### **Independence**

~~I confirm that, to the best of my knowledge and belief, I currently meet the independence requirements specified by APRA in Prudential Standard SPS 510 *Governance*.~~

### **Internal Audit (where applicable)**

~~As the RSE auditor of [RSE Licensee]'s I will look to understand the internal audit function to the extent that I may be able to liaise closely and consider the work performed by the internal audit function in the context of my reasonable and limited assurance engagements.~~

~~Where work is carried out by Internal Audit as part of [RSE Licensee]'s internal control procedures, I intend to review the work performed and carry out such re-performance tests and other procedures as I consider necessary. Where I am satisfied with the work carried out by Internal Audit, it is my intention to place reliance on such work in accordance with Auditing Standard ASA 610 *Using the Work of Internal Auditors* and accordingly reduce the extent of my own procedures relating to internal controls.~~

### **Special Purpose Engagements**

~~As a separate engagement, I shall undertake an [audit/review/agreed upon procedures (insert as appropriate)] and issue a report on a specific area identified by APRA. The details of this~~

engagement will be the subject of a specific request from APRA and result in a separate engagement letter based on that request<sup>39</sup>.

**Confidentiality**

My annual reasonable and limited assurance reports and special purpose engagement report will be issued to [TCWG] of [RSE Licensee] with a copy of the special purpose engagement report sent to APRA at the same time. Any further requests or enquiries from APRA will be communicated to me through [RSE Licensee]. In this way my confidential relationship with [RSE Licensee] will be maintained. However, the SIS Act section 130A provides that the RSE auditor and APRA may communicate with each other on a bilateral basis in certain circumstances.

The Reasonable and Limited Assurance Reports are prepared solely for [TCWG] in order to meet [RSE Licensee]’s APRA reporting requirements. These reports are not to be used for any other purpose or distributed to any other party. I disclaim any assumption of responsibility for any reliance on these reports to any party other than [RSE Licensee] and APRA, or for any purpose other than that for which they were prepared.

**Fees**

APRA requirements will result in additional audit and review procedures being carried out. Fees relating to this work will be based on the degree of responsibility and skill involved and the time necessarily occupied by the work undertaken. [Insert additional information here regarding fee arrangements and billings, as appropriate.]

I look forward to full co-operation with you and your staff and I trust that you will make available to me whatever records, documentation and other information are requested in connection with our reasonable and limited assurance engagements.

This letter will be effective for future years unless I advise you of its amendment or replacement, or the engagement is terminated.

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our reasonable and limited assurance engagements, pursuant to APRA Prudential Standard SPS 310.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [RSE Licensee] by

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<sup>39</sup> Special purpose engagements are generally performed on an exception basis. Refer specific requirements in SPS 310, paragraphs 286-3129.

(signed)

.....

Name and Title

Date

DRAFT



## AUASB Agenda Paper

|                             |   |                     |               |
|-----------------------------|---|---------------------|---------------|
| <b>Title:</b>               | Update on revised GS 007 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i> | <b>Date:</b>        | 15 April 2026 |
| <b>Office of the AUASB:</b> | Arti Naidu  | <b>Agenda Item:</b> | 4.0           |

### Objectives of Agenda Item

- This Agenda Item:
  - provides an update on the progress of the revision of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* (revised GS 007); and
  - seeks AUASB member views on the appropriate location and timing of any AUASB guidance responding to the audit-related matters raised in ASIC Report 816 *Accounting for your super: ASIC's review into the financial reporting and audit of super funds* (September 2025) (ASIC Report 816).

### Questions for AUASB members

| No. | Questions   |
|-----|---|
| 1   | Do AUASB members agree that the AUASB should develop guidance on audit-related matters raised in ASIC Report 816 (see the Appendix to this paper)?  |
| 2   | Do AUASB members agree that, based on information currently available, such guidance should be developed separately from the current revision of GS 007/EG Au 8 (either in a separate guidance statement or a second revision of GS 007), rather than expanding the scope of the revised GS 007/EG Au 8 at this time? |

### Background

- In May 2025, the AUASB and the NZAuASB approved a project plan to revise GS 007/EG Au 8 (the NZ equivalent of GS 007) to improve guidance in areas that auditors find difficult in practice. The project was limited to matters within the scope of extant GS 007, that is matters affecting financial reporting and the outsourcing of the management of direct investments to an external manager. Extant GS 007 refers to ASA 402 and ASAE 3402 and covers controls at the service organisations and includes substantive procedures. Direct investments in unitised products are specifically scoped out by paragraph 7 of extant GS 007.
- A Project Advisory Group (PAG), comprising auditors from large firms in Australia and New Zealand, was established to support the revision of GS 007/EG Au 8. Refer Agenda Paper 4.1 for the GS 007 Project Plan.
- The PAG has met three times since the AUASB was updated on progress at its December 2025 meeting. All matters listed in the appendix to the Project Plan have been addressed, subject to the matters noted under 'Timing' below.

### Timing

- While the revised GS 007 was expected to be completed for approval at the April 2026 AUASB and NZAuASB Board meetings, we are now aiming for approval by 30 June 2026 because additional time is required to:
  - Further refine the information technology control objectives in Appendix 3 following detailed feedback from PAG members and audit firm IT specialists. These IT specialists participated in the March 2026 PAG meeting. Amendments to the draft GS 007/EG Au 8 will be discussed at the tenth PAG meeting on 20 April 2026.
  - Regulators in Australia and New Zealand were given an opportunity to comment on a draft revised GS 007/EG Au8. Their feedback has been incorporated (where appropriate), and we

provided responses to them on how their feedback has been addressed. One regulator has sought to meet to discuss their feedback further.

6. Further time would be required to finalise the revised GS 007/EG Au 8 if the project scope is expanded to cover audit-related matters raised in ASIC Report 816 (see line 1 of the table in paragraph 11 under the 'Against' column).

## ASIC Report 816

7. ASIC Report 816 highlighted ASIC's findings from its RSE audit inspections (see the Appendix to this paper) on:
  - (a) audit work on the valuation of investments in unlisted MISs and similar collective investment vehicles (domestic and foreign); and
  - (b) RSE audit materiality.
8. The AAA-PPC established an RSE Taskforce to develop recommendations to the AAA-PPC on potential responses to address the matters in the ASIC report. The Taskforce has met on three occasions and will have a further three to four meetings before finalising its recommendations. The next three Taskforce meetings are with RSE industry representatives on their processes, etc. It appears unlikely that the Taskforce will conclude before 30 June 2026. Representatives of the Office of the AUASB observe the Taskforce meetings and participate in discussions. Any decisions on possible AUASB guidance remain a matter for the AUASB Board.
9. Discussions on possible AUASB guidance relating to the audit matters in ASIC Report 816 are ongoing. The status of these discussions to date is as follows:
  - (a) *GS 007 PAG* - PAG members suggested expanding the scope of the revised GS 007/EG Au 8 to address audit work on the valuation of investments in unlisted MISs. Whether the additional guidance is included in GS 007/EG Au 8 or separate guidance documents, GS 007 PAG members might be used, subject to their agreement.
  - (b) *AAA-PPC RSE Taskforce* – Taskforce members would support AUASB guidance but believe it should appear outside GS 007. It has been suggested that the AUASB cover one aspect of audit materiality (relating to sponsorship and advertising) and the matters relating to the audit work on unlisted investments in MISs. The RSE Taskforce would continue. Any AUASB guidance would be developed after the Taskforce work is completed and with regard to that work.
  - (c) *AUASB members* - In a private session at the AUASB's 25 February 2026 meeting, some members expressed support for the AUASB developing guidance on audit work on the valuation of investments in unlisted MISs.
  - (d) *ASIC* - ASIC would support the AUASB developing guidance but we are in the process of better understanding the audit-related findings in ASIC Report 816 and confirming what matters ASIC would consider should be covered in guidance.
  - (e) *NZAuASB* - At its meeting on 1 April 2026, the NZAuASB supported the development of guidance separate from the revised GS 007.
  - (f) *NZ FMA* - The NZ FMA is developing guidance on audit work on the valuation of investments in unlisted MISs. A meeting is being organised by the NZ XRB with the NZ FMA and Office of the AUASB representatives to discuss the approach to guidance in NZ. That meeting is likely to take place in May 2026.
10. For information:
  - (a) APRA raised concerns with governance on the valuation of unlisted investments by some RSEs in Section 3 of a report titled *Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation (December 2024)*; and
  - (b) The Institute of Singapore Chartered Accountants (ISCA) issued *Audit Bulletin 8: Key Considerations in Auditing Valuation of Unquoted Equity Investments (AB 8)* on 5 January 2026. We have reviewed AB 8 highlights key considerations for the auditor when designing and performing procedures over the valuation of unquoted equity investments. While not directly covering the matters in ASIC Report 816, it may be possible to draw on some of this guidance. Singapore adopts IFRS accounting standards and the ISAs.
11. Arguments for and against expanding the scope of the current revision of GS 007 compared to a separate new guidance statement are outlined in the table below.

| No. | For  | Against  |
|-----|--|--|
| 1   | <p><b>Efficiency and avoiding duplication</b></p> <p>Including additional guidance in GS 007 may be more efficient to the extent that it involves the valuation of investments in externally managed MISs and some of the guidance may overlap with the guidance in GS 007 (e.g. guidance on gap periods between an MIS's latest audited financial report and the RSE's year end). Otherwise, separate guidance may need to repeat or cross-refer to some of the guidance in GS 007.</p>   | <p><b>Significant delay in the finalisation of the revised GS 007</b></p> <p>Expanding scope at this late stage would delay the finalisation of the revised GS 007 by given:</p> <ul style="list-style-type: none"> <li>• The AAA-PPC RSE Taskforce work is unlikely to conclude before 30 June 2026.</li> <li>• Additional PAG time and consultation would be required to develop the guidance.</li> <li>• There may be differing views between stakeholders on aspects of the guidance</li> </ul> <p>This would also delay the operative date of GS 007.</p>   |
| 2   | <p><b>Scope of GS 007</b></p> <p>Discussions with stakeholders on the scope of the additional guidance are still in process. The scope could be narrower than all audit-related matters in ASIC Report 816.</p>  | <p><b>Scope of GS 007</b></p> <p>Covering all of the audit matters in ASIC Report 816 would significantly increase the scope of GS 007 to cover:</p> <ul style="list-style-type: none"> <li>• Unitised products currently scoped out by paragraph 7 of extant GS 007;</li> <li>• Guidance on testing the interests of an RSE's interest in an MIS, which may extend to NAV/unit, units on issue and unit prices of the MIS. This may also necessitate work on unit prices for applications and redemptions during the year, and unresolved MIS member complaints received. Similar guidance may also be relevant for audit work on the member interests of the RSE itself;</li> <li>• Guidance on setting materiality for RSEs and possibly other financial services or investment entities (e.g. MISs, life insurance); and</li> <li>• We understand auditors are unlikely to be able to rely on controls of MIS managers or RSEs at present, but this a key part of the guidance in GS 007 and the reports obtained from service organisation auditors.</li> </ul> |
| 3   | <p><b>External investment management</b></p> <p>GS 007 addresses audit implications arising from the use of service organisations for investment management. The findings in ASIC Report 816 include audit work on the valuation of indirectly held interests in pooled arrangements that are also externally managed.</p>   | <p><b>Types of unlisted investments</b></p> <p>Valuation approaches and audit work may differ across asset classes (property, infrastructure, venture capital, etc). There may also be a need to cover the tax implications of unrealised gains on underlying MIS assets. Covering this in GS 007 risks oversimplification or technical inaccuracies.</p>  |
| 4   | <p><b>Usability for auditors</b></p> <p>Auditors currently look to GS 007 as the primary source of guidance when auditing outsourced investment activities. Providing guidance primarily related to the valuation of investments in unlisted MISs within the same document:</p> <ul style="list-style-type: none"> <li>• enhances accessibility and consistency for practitioners;</li> <li>• reduces the risk that important guidance is overlooked across multiple documents; and</li> <li>• supports consistent application in practice.</li> </ul> | <p><b>Complexity of GS 007</b></p> <p>The draft revised GS 007 is already long and detailed. While the draft will be reviewed for opportunities for simplification, much of this detail derives from PAG discussions and drawing on UK guidance.</p> <p>Introducing the RSE matters is likely to significantly increase the size and complexity of the revised GS 007, and risks increased confusion and reduced clarity.</p> <p>If the scope is changed, there may also be confusion as to the scope of GS 007 reports among both user and service auditors.</p>  |

# AUASB Agenda Paper

| No. | For | Against   |
|-----|-----|---|
| 5   | -   | <b><i>Consistency between Australia and NZ</i></b><br>The NZAuASB currently supports the development of guidance separate from EG Au 8. It is also possible that separate guidance will be developed by the NZ FMA. |

## Recommendation

12. Having regard to the matters outlined in the table above, it is recommended that the scope of the current revision of GS 007/EG Au 8 not be expanded to cover additional audit-related matters in ASIC Report 816. These matters can be addressed in a separate guidance statement or a second revision of GS 007.

## Next steps

13. The next PAG meeting on 20 April 2026, will seek to finalise refinements to the control objectives. A revised GS 007 will be brought to the AUASB Board for approval at the 24 June 2026 Board meeting. This will be coordinated with the NZAuASB.
14. A project plan for developing guidance on the audit-related matters in ASIC Report 816 will also be presented to the 24 June 2026 Board meeting. This will also be coordinated with the NZAuASB.

## Materials presented

| Agenda Paper | Description         |
|--------------|---------------------|
| 4.1          | GS 007 Project Plan |

## APPENDIX: POSSIBLE SCOPE OF RSE GUIDANCE

The audit-related matters raised in ASIC Report 816 are outlined in the table below.

| No. | Area                                  | ASIC Report 816 – ‘What auditors should do’  |
|-----|---------------------------------------|--|
| 1   | Assurance about investment valuations | <p>Auditors should consider the following steps when auditing the valuation of <b>unlisted investments that are indirectly held and externally managed</b>.</p> <ul style="list-style-type: none"> <li>• <b>When performing their risk assessment procedures</b>, auditors should understand the nature of the underlying assets, the methods, assumptions and sources of data used in the valuation of those assets: see ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> (ASA 315).</li> <li>• <b>When relying on the operating effectiveness of an external fund manager’s valuation controls</b>, auditors should review the controls report provided by the other auditor and: <ul style="list-style-type: none"> <li>○ challenge and assess the sufficiency of controls identified and tested</li> <li>○ where necessary, make further inquiries of the other auditor (directly or through the RSE) to understand the valuation controls, and</li> <li>○ where gaps are identified, obtain further assurance over controls from the other auditor (directly or through the RSE) or revise their own audit approach.</li> </ul> </li> </ul> <p>See ASA 500 <i>Audit Evidence</i> (ASA 500) and ASA 330 <i>The Auditor’s Responses to Assessed Risks</i> (ASA 330).</p> <ul style="list-style-type: none"> <li>• <b>When relying on the operating effectiveness of an RSE’s controls over an external fund manager</b>, auditors should identify and test the RSE’s controls used to monitor and assess the appropriateness and reasonableness of the fund manager’s valuation methods, assumptions and data (applied both during the year and at year end): see ASA 500 and ASA 330.</li> <li>• <b>When performing substantive procedures</b>, auditors should test the reliability and reasonableness of pricing information provided by external fund managers. This may include testing the fund manager’s methods, assumptions and sources of data used in the valuation (especially when there are no audited financial reports available for the unlisted investments): see ASA 500, ASA 330 and ASA 505 <i>External Confirmations</i> (ASA 505).</li> </ul> <p><b>Note:</b> Even when information to be used as audit evidence is obtained from sources external to RSEs, circumstances may exist that could affect its reliability (e.g. when the source may lack objectivity).</p> <ul style="list-style-type: none"> <li>• <b>When performing other substantive procedures when audited financial reports for unlisted investments are not available or do not cover the full financial year</b>, auditors should (directly or through RSEs): <ul style="list-style-type: none"> <li>○ obtain access to information about the underlying assets from the external fund manager that allows the auditor to test the year-end valuation: see ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> (ASA 540), or</li> <li>○ where relevant, obtain reliance from the work of the other auditor through agreed substantive audit procedures for the year-end valuation.</li> </ul> </li> </ul> <p><b>Note:</b> There is no statutory requirement for unregistered (wholesale) managed investment schemes to issue audited financial reports. This elevates the risks associated with the reliability of the valuation of investments in these schemes.</p> <ul style="list-style-type: none"> <li>• <b>When performing other substantive procedures in conducting a fair value movement analysis</b> between the RSE’s balance date and the date of the last audited financial report, auditors should consider: <ul style="list-style-type: none"> <li>○ price movements against recent market movements of the underlying assets, and</li> <li>○ other current information.</li> </ul> </li> </ul> <p>See ASA 500.</p> <p><b>Note:</b> Work on movement analysis for periods greater than three months is less likely to give sufficient assurance over year end investment values.</p> <ul style="list-style-type: none"> <li>• <b>When assessing the impact of information limitations on the audit opinion</b> (i.e. when there is no other audited information and there is limited available information regarding the underlying assets, valuation methods, assumptions and inputs), auditors should: <ul style="list-style-type: none"> <li>○ understand the nature of the limitation of scope and whether it results in an increased risk requiring further audit procedures</li> <li>○ assess whether the limitation would result in a modified audit opinion, and</li> </ul> </li> </ul> |

# AUASB Agenda Paper

| No. | Area                | ASIC Report 816 – ‘What auditors should do’  |
|-----|---------------------|--|
|     |                     | <ul style="list-style-type: none"> <li>○ consider the need to report matters to those charged with governance and APRA. See ASA 705 <i>Modifications to the Opinion in the Independent Auditor’s Report</i> (ASA 705), ASA 260 <i>Communication to Those Charged with Governance</i> (ASA 260) and ASA 265 <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i> (ASA 265).</li> </ul> <p><b>When auditing the valuation of directly held unlisted investments</b>, auditors should test and challenge the reasonableness of any key RSE’s judgements and assumptions applied in the valuation: see ASA 540.</p> <p><b>Note:</b> The above does not constitute an exhaustive list of audit procedures and auditing standards that the auditor should consider when auditing RSEs’ unlisted investments.</p> <p><i>[ASIC Report defines ‘fund manager’ as:</i></p> <ul style="list-style-type: none"> <li>● <i>a responsible entity of a registered (retail) managed investment scheme, trustee of an unregistered (wholesale) managed investment scheme, or</i></li> <li>● <i>in relation to valuation, a person (including an external investment manager) engaged to value MIS units, MIS underlying assets or unlisted investments.]</i></li> </ul> |
| 2   | Audit materiality   | <p>When setting audit materiality for RSEs, auditors should apply professional judgement and carefully consider the requirements in ASA 320, and the following:</p> <ul style="list-style-type: none"> <li>● Should a lower level of materiality be determined — for example, based on income or revenue instead of total or net assets — to cater for the financial information needs of the members and users of the RSE’s financial reports? Members are interested in the risks and performance of their own portfolios when making investment decisions and in the RSE’s overall performance.</li> <li>● Is any class of transaction, balance or disclosure qualitatively material — for example, sponsorship and advertising expenses?</li> </ul>  |
| 3   | Audit documentation | <ul style="list-style-type: none"> <li>● When documenting audit work, auditors should apply the requirements of ASA 230 and ensure that the audit engagement file sufficiently documents the: <ul style="list-style-type: none"> <li>○ the audit procedures performed</li> <li>○ the evidence obtained</li> <li>○ the basis for conclusions reached, including any professional judgements made, and</li> <li>○ the basis of their use of, and the extent of their review of, the other auditors’ work.</li> </ul> </li> <li>● Audit documentation must be recorded in a timely manner.</li> </ul>   |



# AUASB Project Plan

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|                       |   |
|-----------------------|---|
| <b>Project Title:</b> | Revision of Guidance Statement GS 007 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i> (Australian version) and EG Au8 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i> (New Zealand version) |
| <b>Date Prepared:</b> | 29 April 2025   |
| <b>Date Approved:</b> | 14 May 2025   |
| <b>Office Member:</b> | Rajen Pillay / Thinus Peyper  |
| <b>AUASB Member:</b>  | Klynton Hankin  |

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## Overview of Project

### Information Gathering/Background

GS 007 was first issued in March 2008 and subsequently updated and reissued on 25 October 2011 by the AUASB. EG Au8 was issued in September 2013.

More recent feedback from external stakeholders (i.e. audit firms and regulators) highlighted that the audit landscape has evolved since 2011 with for example, changes in auditing standards, and changes in technology and its use by entities. Therefore, the current version of GS 007 requires updating to bring it in line with current practice. Further details are noted under the project scope area below.

Consistent with the Principles of harmonisation of Australian and New Zealand Standards, the AUASB and NZAuASB will work on updating GS 007 and EG Au8 jointly to achieve consistency where appropriate across jurisdictions.

At the AUASB Board Meeting in November 2024 Klynton Hankin (current Board Member) agreed to act in the capacity of project sponsor for the GS 007 revision. A subsequent meeting was held with him in December 2024 to get a brief overview of the issues with the application of GS 007 and to inform the scope of the project. The issues have been further informed by input from Project Advisory Group (PAG) members, both before and during an initial PAG meeting on 2 April 2025.

### Stakeholder engagement

GS 007/EG Au8 is widely used in the investment management services industry. Key stakeholders impacted by the revision to GS 007 and EG Au8 are:

- service/subservice organisations that provide investment management and related services to the superannuation and wealth management industry and their auditors providing assurance on the design and effective operation of relevant controls; and
- user entities (e.g. managed schemes, responsible entities, registrable superannuation entities and RSE licensees/trustees) and the auditors of their financial reports.

Another stakeholder group for input may include the Australian Custodial Services Association (ACSA), an industry body representing members of Australia's custodial and investment administration sector. It is also expected that we will hold ongoing discussions with ASIC and the NZ FMA which regulate financial reports and audits. The NZAuASB will also endeavour to seek input from any relevant stakeholder groups in New Zealand.

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*This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

## Scope

### *Project Objective*

To review and revise both GS 007 and EG Au8 regarding key issues with its application by auditors of financial reports of entities in the investment management and superannuation industry.

### *Project Scope*

The GS 007 application scope will remain as described in paragraph 1 i.e. guidance provided to:

- (i) user auditors of a financial report of a user entity which uses a third-party service organisation to provide investment management services; and
- (ii) service auditors of those service organisations who provide reports on controls (or financial information) which may be used as audit evidence in the audit of the user entity's financial report.

A similar scope is outlined in EG Au8.

To meet the project objective this project will address the application issues with the current guidance having regard to feedback from external stakeholders (i.e. audit firms and practitioners) that undertake audit work in the investment management services industry.

The application issues to be addressed are outlined in the **Appendix** to this project plan identified by the PAG chair and members. These issues will be refined as we progress with the review.

The review of GS 007/EG Au8 and the approach to issues identified will be informed by a review of guidance/practices in the US and UK (i.e. SSAE 18 in the US (2017) and ICAEW 01/20 AAF in the UK (2020)), and possibly other jurisdictions.

### *Issues Out of Scope of this project*

The project is confined to the use of service organisations in the context of a financial report audit. The update will not cover, for example, sustainability reporting and associated value chain reporting by service organisations. This will be addressed as a separate project at a future date.

## Project Governance

### **Project Advisory Group (PAG)**

To assist both Boards with this project, we have formed a **PAG** to advise on the development of proposed amendments to GS 007 and the NZ explanatory guide EG Au8. The PAG comprises member representatives from the largest audit firms (large national network firms) from Australia and New Zealand. The PAG Chair is Klynton Hankin who has subject matter expertise in the financial services sector.

The Australian AUASB and NZAuASB sought from its respective Boards (sourced from their audit firms) nominations of suitably experienced individuals to serve on the PAG. As required by paragraph 62 of the AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications, the AUASB Chair made the final decision on selecting PAG members to ensure appropriate representation on the PAG. Appropriate representatives of the NZAuASB staff were consulted in making his decision.

### **Targeted Implementation Date**

The reporting period targeted is years ending 30 June 2026 and later. It is planned to provide a final draft in February/March 2026 for review and approval by both Boards (refer action plan below).

## Risks/Issues

| Risk/Issue to meeting project objective   | Planned Mitigation Activities  |
|---|--|
| Scope not well defined – “scope creep”  | Discussions at PAG and AUASB (including approval of this project plan) to clearly define scope |
| Amendments go beyond or are not consistent with the underlying requirements in Auditing Standards (ASA 402 and ASAE 3402) | Review by PAG and AUASB  |

## Action Plan

Action plan steps outlined in table below.

| Date                       | Description/AUASB timing  | Date                | NZAuASB Timing   |
|----------------------------|---|---------------------|--|
| <i>14 Feb 2025</i>         | <i>Initial discussion AUASB staff</i>   | <i>18 Feb 2025</i>  | <i>Initial NZAuASB Discussion</i>                        |
| <i>2 April 2025</i>        | <i>Project scope issues discussed at 1<sup>st</sup> PAG meeting – inform plan</i> |                     | <i>Joint project same timing</i>                         |
|                            |   | <i>9 April 2025</i> | <i>NZAuASB updated on project progress and scope</i>     |
| <i>14 May 2025</i>         | <i>Plan approval by AUASB Board</i>   | <i>TBC</i>          | <i>Plan approval by NZ Board</i>                         |
| <i>3 April to Dec 2025</i> | <i>Project work undertaken and ongoing PAG review</i>                             |                     | <i>Joint project same timing</i>                         |
| <i>Jan/Feb 2026</i>        | <i>Early draft of GS/EG for PAG review</i>  |                     | <i>Joint project same timing</i>                         |
| <i>Feb/Mar 2026</i>        | <i>Final draft of GS/EG to Board for review/approval</i>                          | <i>Feb/Mar 2026</i> | <i>Final draft of GS/EG to Board for review/approval</i> |

## Communication with stakeholders

The necessary AUASB / NZAuASB protocols will be followed to issue updated non-authoritative pronouncements. The AUASB will have regard to its *Due Process Framework*.

## Appendix

Project scope issues are detailed in the table below. This is subject to further consideration/refinement during the PAG process.

|                                    | Issues / Observations  | Related Action / Response |
|------------------------------------|--|---------------------------|
| <b>A. Subservice organisations</b> |  |                           |
| 1                                  | <p>Subservice organisations (SSO) and the inconsistent application of the carve out method. Where carve out is applied some principles-based guidance including:</p> <ul style="list-style-type: none"> <li>• Initial risk assessment procedures to justify why SSO is carved out.</li> <li>• Monitoring of controls by the service organisation to evidence design and operating effectiveness of controls at the SSO to support a conclusion regarding achievement of the in-scope objectives.</li> <li>• Adequacy of reporting around control objectives/controls by service/subservice organisation?</li> <li>• Consideration of ability to obtain sufficient appropriate audit evidence on the relevant control objectives where there are carved out SSOs.</li> </ul>  |                           |
| 2                                  | <p>Limitations on user auditor access to SSOs where controls are at the SSO rather than the service organisation.</p> <ul style="list-style-type: none"> <li>• Consider whether guidance may be useful for SSOs that are considered significant and the absence of a contractual relationship between the user entity and the SSO – linking into issue 1 above on risk assessments and possible carve out (e.g. superannuation fund audits)?</li> </ul>  |                           |
| <b>B. Gap periods</b>              |  |                           |
| 3                                  | <p>Gaps in time periods between:</p> <p>(i) service organisations relying on subservice organisations; and</p> <p>(ii) service organisations and user entity financial reporting year end.</p> <p>Applying a risk lens, clarity on the nature and extent of additional audit procedures that could be used by user/service auditor to address:</p> <ul style="list-style-type: none"> <li>• Coverage of a gap period and over what duration.</li> <li>• Risk considerations around duration of the gap, nature of the control and system changes; and the criticality of the service provider to the subject matter.</li> <li>• Consider regulatory requirements / expectations i.e. ASIC, NZ FMA?</li> </ul> <p>For example, consideration may be given to the impact of combination of:</p> <ul style="list-style-type: none"> <li>• the gap period at a subservice organisation; and</li> <li>• the time lag between the date of the report from the service organisation auditor and the balance date of the entity subject to audit.</li> </ul> |                           |

|  | Issues / Observations   | Related Action / Response |
|--|---|---------------------------|
| <b>C. Nature and extent of controls testing (and related considerations)</b> |   |                           |
| 4  | <p>Clarity on requirements for evidencing the extent of controls testing (including IT dependencies) on the following.</p> <ul style="list-style-type: none"> <li>• The extent of testing on automated controls or key reports, and IT dependent manual controls? Can it be assumed that service auditor has tested the IT dependency for report generation and completeness and accuracy of the source population as part of an IT dependent manual control or should this be set out in the GS007/EG Au8 report?</li> <li>• Where control samples are selected from a population, what testing has been performed over the completeness and accuracy of the population.</li> </ul> <p>NB: Further clarity around definition of:</p> <ul style="list-style-type: none"> <li>• in-scope IT systems underpinning reporting (and therefore subject to Section G IT controls)</li> <li>• the key reports subject to controls/substantive testing.</li> </ul> |                           |
| 5  | <p>Are controls described at too high a level leading to inconsistency in interpretation (including GS 007/EG Au8 section G on IT).</p> <ul style="list-style-type: none"> <li>• Do descriptions need to be more specific and more clearly articulated (e.g. details of precision of review controls, in-scope systems tested)?</li> <li>• Need for further guidance over description of controls (including examples).</li> </ul>  |                           |
| 6  | <p>Should service organisation auditors provide clarity on the approach to determining sample sizes, provide sample sizes in reports and reference the frequency of testing for each control with the report? Alternatively, should reliance be placed on the professional judgement of the service organisation auditor.</p> <ul style="list-style-type: none"> <li>• Some base line level of sampling might be included within GS007/EG Au8.</li> <li>• Guidance would not be provided on how auditors should determine sizes.</li> </ul>   |                           |
| 7  | <p>Extent to which roll forward test procedures are performed over differing period ends, and whether and how this is disclosed in service organisation auditor reports. It may be appropriate to draft based on UK guidance AAF 01/20.</p>   |                           |
| <b>D. Other areas of challenge</b>   |   |                           |
| 8  | <p>Use of EoM (emphasis of matter) when controls exist but were not required to operate within the period (e.g. controls over client acceptance where no new clients were accepted).</p> <ul style="list-style-type: none"> <li>• Clarifying when and how such matters should be reported is seen as important for consistency and for informing the user auditor's conclusions.</li> </ul>   |                           |

|    | <b>Issues / Observations</b>  | <b>Related Action / Response</b> |
|----|---|----------------------------------|
| 9  | <p>Expectations on interaction between user auditor and service auditor having regard to likely report content, particularly where the report will be received late in the audit.</p> <ul style="list-style-type: none"> <li>• Communication throughout to avoid surprises when final report is received.</li> <li>• Timing of the receipt of the controls report to allow sufficient time for the user entity auditor to use the evidence it contains prior to completion of the user entity’s audit. Further procedures may be required for opinion modifications and/or deviations reported, as well as seeking more clarity on the controls tested, etc.</li> <li>• Clarifying the expectations regarding findings and qualification – any additional information required to be included in the report or to support the report to assist user entity auditors or auditors of the service organisation</li> <li>• Disclosure of procedures undertaken to determine completeness and accuracy of population where completed?</li> </ul> |                                  |
| 10 | <p>Section G control objectives (GS 007/EGAu8) – while GS 007/EG Au8 is focused on the impact on financial reporting, GS 007/EG Au8 might include a statement that service organisation reports may also need to address controls to address operational resilience or other matters reporting required by regulatory bodies. This could include business continuity plans and cyber-security. However, guidance on these matters would remain outside the scope of GS 007/EG Au8.</p>  |                                  |
| 11 | <p>Consider covering emerging service providers in addition to custodians and fund administrators.</p>  |                                  |