Accounting for your super: ASIC's review into the financial reporting and audit of super funds

Report 816 | September 2025

About this report

This report summarises findings from our RSE financial reporting and audit surveillance for FY 2024–25. It highlights areas where the quality of financial reporting and audits can be improved.

This report will be of interest to preparers, reviewers and users of financial information such as auditors, audit committees, superannuation trustees, members, accounting firms and professional accounting bodies.

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About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Executive summary

Superannuation is important to the Australian economy and plays a critical role in ensuring the financial security and economic wellbeing of Australians in retirement. Superannuation has become a significant source of wealth for many Australians and continues to raise living standards in retirement for millions of people.

Total superannuation assets have more than doubled in the past decade to nearly $4.3 trillion funds under management, including $3.0 trillion in APRA-regulated funds (APRA releases superannuation statistics for June 2025). Australia has the world's fourth largest pension pool (following the United States, the United Kingdom and Canada), despite accounting for less than 1% of the world's population: see the OECD Pensions at a Glance 2023 (page 222). Australia's superannuation system is also a significant force in our capital markets with superannuation contributions playing a pivotal role in domestic investment in support of the real economy.

Registrable superannuation entities (RSEs) have stakeholders, including their members and government authorities, that rely on audited financial information about the RSE to drive informed decision-making. Information about the financial position of RSEs is particularly important, in view of their size and significance to the Australian economy. For members, confidence in the quality of audited financial reports underpins confidence in the accuracy of information about the superannuation funds that safeguard their retirement savings.

Superannuation trustees and auditors play a critical role in ensuring the integrity of audited financial reports. Superannuation trustees must put in place appropriate governance arrangements to help with the preparation of high-quality financial reports. Auditors must perform independent audits that comply with the relevant auditing standards, and with ethical standards. When trustees and auditors do not perform their roles as gatekeepers adequately, there is a risk that asset values could be misstated. As a result, stakeholder confidence could be undermined.

RSEs were required to lodge audited financial reports with ASIC for the first time for financial years commencing on or after 1 July 2023. These reports were lodged during the 2024–25 financial year. We reviewed the quality of 60 RSE financial reports, made inquiries with 17 superannuation trustees to obtain further information and conducted audit surveillances of five RSEs. We focused on the valuation and disclosure of investments, and the disclosure of expenses.

This report sets out the findings from our surveillances and, based on these findings, calls on superannuation trustees and auditors to do more to strengthen the quality of audited RSE financial reports. We will continue to investigate potential breaches of the *Corporations Act 2001* (Corporations Act) and take compliance or enforcement actions as appropriate.

ASIC recently published a progress report of our surveillance work on private credit funds management and issued an expert paper on the Australian private credit market. Both the progress report and the expert paper highlighted areas where funds management practices need to be uplifted. This includes valuation and related transparency.

Our surveillance of RSE financial reports and the related audits of those reports has given us further insights into the valuation practices of RSE assets held through unlisted managed funds. It underscores our view that more needs to be done within the industry to provide greater confidence in the valuation of unlisted managed funds assets including, where relevant, by superannuation trustees and their auditors.

This year, as part of our commitment to audit quality, we have also conducted a surveillance about auditor compliance with independence and conflicts of interest obligations. A report setting out our findings on this work will be published in early October.

Given the importance of RSE financial reports and audits – and that this is the first year they were part of our surveillance program – we are reporting our findings separately and in advance of our annual public report covering our financial reporting and audit surveillance findings more broadly. That report will be published in late October.

We will continue to focus on RSE financial reports and audits as part of our 2025–26 surveillance program as we recognise the need for continued engagement with industry to lift the standard of financial reporting and audit practices, particularly in relation to the valuation and disclosure of unlisted investments.

What we did

We conducted surveillance activities to ensure that RSE:

- financial reports were prepared in accordance with Australian Accounting Standards
- audits were conducted in accordance with Australian Auditing Standards, and
- financial reports and audits complied with the Corporations Act.

We reviewed 60 RSE financial reports for the year ended 30 June 2024. These financial reports represented about half of the RSEs that reported last year. We selected these RSEs based on investment profiles, size and/or other intelligence. Of these 60 RSE financial report reviews, we contacted 17 superannuation trustees to obtain further information.

We also reviewed five RSE audit files. We chose one file from each of the five large audit firms that collectively audit the majority of all RSE financial reports.

In our review, we focused on the valuation and disclosure of investments, and the disclosure of expenses. Investment valuations are important as investments by RSEs are substantially all of the assets on their balance sheets.

What we found

We found that superannuation trustees and auditors should be doing more so that valuations of assets in financial reports are reliable and give members confidence in their investments.

From our review of financial reports, we found RSEs took different approaches when categorising unlisted investments, often with limited disclosure about their approach. As a result, it was difficult for a user to compare investments between RSE financial reports, or to understand how much they could rely on those valuations.

We also found that sponsorship and advertising expenses were not separately disclosed from other expenses in some RSE financial reports because RSEs took a narrow, quantitative approach to materiality. Superannuation trustees should carefully consider whether sponsorship and advertising expenses may be qualitatively material to members, even when the amounts are not quantitatively material, and therefore should be separately disclosed.

From our review of audit files, we are of the view that auditors are not doing enough to obtain sufficient audit evidence that provides reasonable assurance about investment valuations in the RSE financial reports. We found that given the size of RSEs, auditors adopted high levels of materiality which can result in less audit work being undertaken. Auditors also did not adequately challenge the valuations provided by external fund managers. This could undermine member confidence in the accuracy of financial information about their superannuation fund. We issued comment forms to four auditors setting out our findings and will continue to work with them to resolve our concerns.

CALL TO ACTION

- **Superannuation trustees should do more to ensure that valuations provided by external fund managers are reliable.**
- **Superannuation trustees should ensure their fair value disclosures are sufficient to enable members to understand the nature of the investments and assess the reliability of valuations.**
- **Superannuation trustees should consider disclosing more information about expenses in the RSEs' financial reports where that information would be important to members.**
- **RSE auditors should do more to obtain sufficient audit evidence about investment valuations.**
- **RSE auditors should consider whether they should apply lower levels of materiality when conducting their RSE audits.**

Ongoing surveillance

In the 2025–26 financial year, we will undertake our second RSE financial reporting and audit surveillance program. We will:

- review the financial reports of all RSEs not covered in our first surveillance program for the year ended 30 June 2025
- undertake five RSE audit surveillances
- monitor how auditors and audit firms are taking action to address our findings from the RSE audit surveillance program for the 2024–25 financial year
- continue to engage with industry to improve financial reporting and audit practices, and
- consider regulatory action, including enforcement action, where we see a significant breach of the Corporations Act.

Anyone preparing or auditing financial reports should refer to the focus areas that are part of our financial reporting and audit surveillance program for the 2025–26 financial year: see Media Release (25-079MR) *ASIC announces financial reporting and audit focus areas for FY 2025–26* (19 May 2025).

SECTION 1

ASIC's role in regulating RSE financial reports and audits

From 1 July 2023:

- the financial reporting and audit requirements in Chapter 2M of the Corporations Act applied to RSEs for the first time, and
- ASIC became responsible for administering additional parts of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

ASIC is now responsible for the oversight of the financial reporting and auditing obligations of RSEs and RSE auditors. ASIC works closely with the Australian Prudential Regulation Authority (APRA) when carrying out our responsibilities for regulating RSEs.

In the lead up to the new regime, ASIC conducted six voluntary RSE audit surveillances to understand how RSE auditors approached their audits. We raised concerns with and provided recommendations to audit firms about the adequacy of audit procedures for unlisted investments.

While we observed some improvement in audit procedures performed in the 2024–25 audit surveillances, some of the findings from our voluntary surveillance program remain.

SECTION 2

Financial reporting surveillance

In our 2024–25 financial reporting surveillance program, we:

- reviewed financial reports of 60 RSEs for the year ended 30 June 2024, and
- made inquiries with 17 superannuation trustees about their financial reporting.

Our surveillance program focused on the valuation and disclosure of investments and the disclosure of expenses. Accurate and timely valuation of investments and good quality disclosures are critical in enhancing transparency and promoting member confidence in the financial information about their superannuation fund.

As a result of our inquiries, two superannuation trustees will make changes to their next financial reports.

Fair valuation of investments

Investments comprise substantially all of the assets on the balance sheet of RSEs. RSEs invest directly or indirectly in assets. Indirect investments may be, for example, where an RSE holds a unit in a managed investment scheme and the scheme holds the underlying assets (MIS investment), i.e. the RSE holds the underlying assets indirectly.

RSEs must estimate the fair value of their investments at the balance date in accordance with AASB 13 *Fair Value Measurement* (AASB 13). Fair value is the price that would be received for the sale of the asset in an orderly transaction between the buyers and sellers.

The fair value of an investment is obtained by either:

- using an observable sale price, or
- estimating the value using a valuation technique – fair valuation estimates generally require significant judgements and assumptions.

What we found

From our review of 60 RSE financial reports, we observed RSEs adopting a range of common valuation methodologies, depending on the nature of their investments including:

- discounted cash flow
- capitalisation method
- quoted stock prices, and
- market multiples.

For investments held in managed investment schemes, the valuation is often performed by external fund managers and provided to the RSEs as a redemption price. RSEs often rely on this redemption price to determine the fair value of their MIS investments. However, RSEs should be aware that the redemption price may not always be a reliable estimate of fair value for MIS investments. RSEs may have to perform their own fair value assessments for MIS investments.

What RSEs should do

To obtain a fair valuation of indirectly held investments, RSEs should not unduly rely on redemption prices if:

- the redemption price was last updated before the balance date and may not reflect the current fair value
- there are indicators of impairment of the underlying asset that may impact the redemption price, or
- the redemption price is otherwise not reliable – for example because it is calculated very infrequently or redemptions have been restricted.

RSEs should:

- understand the nature of indirectly held investments, the underlying assets and the valuation methods used to determine their fair value
- critically assess all indicators of impairment (e.g. frozen unit redemptions) and write down investments when required at the balance date, and
- where there are indicators of impairment or the redemption price is otherwise unreliable, carefully assess the fair valuation methodologies, inputs, judgements and assumptions involved in calculating the fair value of the underlying assets.

Disclosure of the fair value hierarchy

RSEs also need to categorise all investments into different levels of the fair value hierarchy and disclose this information in their financial reports. This helps users understand the level of judgement involved in determining the fair value of investments.

AASB 13 sets out criteria for categorising investments into one of three fair value hierarchy levels based on the lowest level of observability of inputs used in the measurement of their fair value: see Table 1.

Table 1: Criteria in AASB 13 for categorising investments into fair value hierarchy

Fair value hierarchy level	Source of the lowest level of inputs that are significant to the valuation of the investment
Level 1	Quoted prices in active markets for identical assets
Level 2	Observable inputs other than quoted prices
Level 3	Unobservable inputs

RSEs make significant judgements about the observability and reliability of fair valuation inputs when categorising investments into the fair value hierarchy levels.

If RSEs hold units in an unlisted managed investment scheme, AASB 13 allows the investments to be categorised based on either the **redemption price** or **inputs used to measure the fair value of the underlying assets held in the scheme**.

When using the redemption price, the RSE categorises the investment into:

- Level 2 if they consider the redemption price to be an observable input, or
- Level 3 if they consider the redemption price to be unobservable.

When using inputs used to measure the fair value of the underlying assets held in the scheme, the RSE categorises the investment based on the lowest level of input into the valuation technique used to measure the fair value of the underlying assets. For example, if the underlying assets are unlisted infrastructure or property assets, the investments would be categorised as Level 3, as their values would be based on valuations involving unobservable inputs that are significant to the valuation.

What we found

RSEs applied AASB 13 differently in the:

- categorisation of unlisted MIS investments in the fair value hierarchy, and
- extent and quality of fair value disclosure.

This variability makes it difficult for members and other users to understand and compare the fair value of investments in the financial report. It was not always clear whether the RSEs had categorised investments based on the redemption price or the inputs used to value the underlying assets.

Out of the 60 RSE financial reports we reviewed:

- 30 RSEs categorised all MIS investments as Level 2
- 5 RSEs categorised all MIS investments as Level 3
- 8 RSEs categorised their MIS investments as both Level 2 and Level 3
- 6 RSEs disclosed investments under the fair value hierarchy based on both the MIS investments and asset class, and
- 2 RSEs did not have investments in a managed investment scheme, or their disclosure did not provide information to determine if they invested in a scheme.

In addition, 9 RSEs categorised all investments in the fair value hierarchy by asset class (e.g. listed equities, property or infrastructure). Investments were categorised into all three levels. It was not always clear whether these assets were held directly or indirectly by a managed investment scheme.

The amount of detail in fair valuation disclosures also varied. Examples of better practice included disclosure of:

- valuation methodologies
- the range(s) of inputs
- the relationship of inputs to fair value for each asset type, and
- the nature of the underlying investments held in unlisted schemes.

We queried one RSE's categorisation of approximately $1 billion of investments in an unlisted managed investment scheme as Level 2. This categorisation was based on the RSE's view that the redemption price of the scheme was an observable input. We were concerned that this was inconsistent with the categorisation of the same investments in the financial report of a related RSE. In that case, the investments were categorised as Level 3 based on unobservable inputs used to value the underlying assets. While either the redemption price or the underlying assets may be used to categorise the investment, judgement is involved in determining whether the inputs are observable.

The RSE has agreed to re-categorise the investments using the relevant inputs used to measure the underlying assets in their 30 June 2025 financial report to provide additional transparency.

What RSEs should do

To improve the clarity and comparability of fair value disclosures for investments in unlisted managed investment schemes, RSEs should consider the following recommendations.

RSEs should **ensure disclosure provides sufficient information** for users to understand the nature of the investments and the basis for the fair value hierarchy categorisation. For example, whether the redemption price or the inputs used to value the underlying assets were utilised.

RSEs should consider disclosing **comprehensive information about the valuation of the investments**, including:

- valuation methodologies
- the availability, subjectivity and the range(s) of inputs
- the relationship of inputs to fair value for each asset class
- significant judgements involved in, for example, determining whether inputs are observable or unobservable, and
- the nature of the underlying investments held in unlisted schemes.

RSEs should consider whether the **redemption price is an observable input** taking into account:

- the volume and frequency of trading in the unlisted MIS investments
- how frequently valuations are performed and redemption prices updated, and
- how frequently redemptions are able to be made and any restrictions or limits on the ability to make redemptions.

RSEs should consider the **factors that affect the observability of inputs to value underlying assets**, including:

- the nature and complexity of the assets
- the variability in fair valuation methodologies used for the type of asset
- the verifiability of inputs used in the fair valuation
- whether subjectivity exists for some inputs or input ranges and in the selection of a point in the range
- the significance of any adjustments made to the inputs
- the results of retrospective reviews of judgements and assumptions from previous years
- the volume and frequency of trading in the investments in unlisted markets, and
- the frequency of valuation of the assets.

Disclosure of expenses

AASB 1056 *Superannuation Entities* (AASB 1056) requires disclosure of material sponsorship and advertising expenses.

Whether an expense category is material or not requires judgement and should be considered on both a quantitative and qualitative basis. The Conceptual Framework for Financial Reporting states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of the reports make and that both the nature and/or magnitude of an item are relevant.

Discretionary expenses, such as sponsorship and advertising, may be of particular interest to members even if not quantitatively material. Under the SIS Act, superannuation trustees have a duty to act in the best financial interests of members. This includes ensuring that expenses incurred are appropriate and are for the benefit of members. For more information on the roles and responsibilities of superannuation trustees, see Appendix 1: Roles and responsibilities.

What we found

Sponsorship and advertising expenses are typically not quantitatively material as the amounts are small compared to other items in an RSE's financial report. Some RSEs included disclosure of sponsorship and advertising expenses in the notes of their financial reports, while others did not.

As a result of our inquiries, one RSE agreed to disclose sponsorship and advertising expenses ($19 million in 2024) in its next financial report to enhance transparency.

> ### What RSEs should do
>
> RSEs must disclose all material expenses that may be important for users of the financial report. They should carefully consider whether sponsorship and advertising expenses should be separately disclosed instead of being aggregated with other expenses.
>
> Disclosure of sponsorship and advertising expenses may be qualitatively material to members, even when the amounts are not quantitatively material. It can also enhance transparency.

SECTION 3

Audit surveillance

Audited financial information gives members greater confidence in the financial information about the superannuation funds that safeguard their retirement savings.

We conducted an audit surveillance on one RSE audit file at each of the following five audit firms: BDO, Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers. At 30 June 2024, these five firms audited more than 80% of the RSE population.

Our audit surveillance program focused on the **valuation and disclosure of a selection of audited investments** totalling $286 billion.

When an audit surveillance is completed, ASIC either sends the auditor a comment form or takes no further action. Following our surveillances, we issued comment forms to four of the audit firms setting out our findings and the basis of our concerns. The auditors have responded to our findings and two firms have provided proposed remedial actions they will take to improve their audit approach for future RSE audits. Some auditors did not agree with our findings but all firms have indicated they will continue to engage with ASIC to improve audit quality for RSEs. We have provided our findings – along with the auditors' responses and their proposed remedial action – to the relevant superannuation trustees.

While the auditing standards are principles based, our expectation is that superannuation trustees and auditors will:

- discuss our findings, and
- consider how they can:
  - work together to improve audit quality
  - ensure that auditors are able to obtain sufficient appropriate audit evidence on which to base their opinions on investment valuations, and
  - overcome any practical challenges, such as obtaining information about underlying assets.

We will work closely with the AUASB and APRA to enhance the quality of RSE audit practices. We will also engage with the audit firms to monitor how they are remediating our findings.

Assurance about investment valuations

Auditors must obtain sufficient appropriate audit evidence in accordance with Australian Auditing Standards to obtain reasonable assurance that investment valuations are not materially misstated in the context of the financial report as a whole.

As described above, RSEs often value investments in unlisted managed investment schemes using redemption prices provided by the external fund manager. These redemption prices may be derived using significant judgements and assumptions, complex models or unverified data.

It is critically important for RSE auditors to obtain adequate independent assurance that investment values are not materially misstated and that, when the redemption prices for MIS investments are used, they appropriately reflect the value of the investments or the underlying assets.

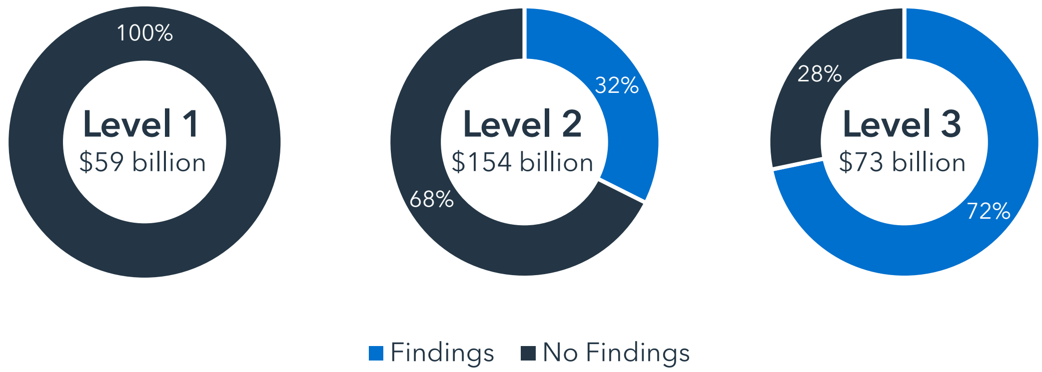
What we found

Of the five auditors we conducted surveillance activities on, one auditor obtained reasonable assurance that the value of unlisted investments in the financial report was free of material misstatement. The auditor:

- performed independent valuation testing of the underlying assets held within the unlisted managed investment schemes, and
- obtained audited financial reports for the schemes (managed by a related party of the superannuation trustee), which had the same year end as the RSE.

In our view, the remaining four auditors did not obtain reasonable assurance that the value of unlisted investments in the financial report was free of material misstatement. They did not adequately test the reliability of the redemption price, or test the methods, assumptions and data used for the valuations. This finding relates to $102.5 billion unlisted investments (36%) of the total $286 billion of investments included in our surveillance as shown in Figure 1. These unlisted investments include $11.0 billion internally managed investments and $91.5 billion externally managed investments.

Figure 1: Investments in each fair value hierarchy category related to ASIC finding



Note: See Table 3 for the data shown in this figure (accessible version).

These four auditors applied various audit approaches to test the valuation of investments categorised as Level 2 and Level 3, including one or more of the following:

- They reviewed control assurance reports on the operating effectiveness of controls the external fund managers had in place for determining and monitoring valuations. These control reports are generally issued by another auditor, not the RSE's auditor.
- They tested the design and operating effectiveness of controls the RSEs had in place for reviewing and monitoring valuations.
- They used substantive procedures such as obtaining valuation confirmations from the external fund managers and reviewing the managed investment schemes' latest audited financial reports from the previous financial year.

Table 2 sets out the concerns we saw for particular audit procedures in the files we reviewed. Not all auditors used all of these procedures, and not all concerns necessarily apply to all of the auditors.

Table 2: Concerns where auditors did not obtain adequate assurance over investment valuations

Concerns	Details
Inadequate evidence obtained on the operating effectiveness of external fund managers' valuation controls	The auditors reviewed the reports on external fund manager controls to obtain assurance over the effectiveness of those controls. However, they did not: › make inquiries where these reports did not have sufficient information or adequately identify, understand and evaluate the design and implementation of the fund manager controls › undertake sufficient alternative control or substantive procedures when they planned to obtain evidence from the fund managers' controls reports, but the reports were unavailable or did not cover the full financial year, or › assess the adequacy of valuation controls testing by the auditors of the reports to ensure that valuation risk was addressed.
Inadequate evidence obtained on the operating effectiveness of the RSEs' valuation controls	The auditors did not adequately assess whether the RSEs' controls over external fund managers were effective in ensuring: › the reasonableness of the fund managers' valuation methods, judgements and assumptions, and › the accuracy of the fund managers' data.
Insufficient evidence through substantive procedures on the accuracy or reliability of information from external fund managers	The auditors relied on investment values (such as redemption prices) provided by external fund managers (investment confirmations) or audited financial reports of the managed investment schemes for the valuation of investments – including private credit investments. However, the auditors did not obtain sufficient evidence: › when investment values were obtained, as pricing information had not been adequately tested for reliability › from the schemes' audited financial reports, as these reports were for a partial year or from the previous year, and did not provide adequate assurance for the financial year end valuation, or › when the audited financial report was not available (e.g. there is no statutory requirement for wholesale managed investment schemes to prepare audited financial reports), because the auditors did not modify their planned audit approach to obtain sufficient evidence through other procedures.
Insufficient evidence through substantive procedures on the accuracy or reliability of redemption prices	The auditors relied on redemption prices as at a date that was not the year-end date. In this case, the auditors did not undertake adequate procedures to determine whether: › a change occurred in the period between the date of the redemption price and financial year end that would affect the price, or › redemption prices reflected the appropriate values of the underlying assets at financial year end.

Concerns	Details
Inadequate analytical procedures	The auditors did not obtain appropriate corroborative evidence when performing their analytical procedures (or fair value movement analysis) and instead relied on: › broad statements, or › generic reference material. We noted instances which may indicate: › a lack of understanding of the nature of the investment to make a meaningful comparison to industry information › confirmation bias, or › inadequate professional scepticism.
Inadequate assessment of the reasonableness of the RSE's assumptions through substantive procedures	The auditor did not adequately assess the reasonableness of the RSE's judgements and assumptions applied in the valuation (for directly held and internally managed unlisted investments).
Inappropriate execution of risk assessment procedures	When performing the risk assessment of investment valuation, the auditor did not adequately understand and consider the following areas: › the nature of the underlying assets › the external fund manager's methods, assumptions and judgements used in determining the redemption prices, and › the objectivity of external fund managers and whether there are indicators of potential bias when selecting the valuation methods, assumptions and data.

What auditors should do

Auditors should consider the following steps when auditing the valuation of **unlisted investments that are indirectly held and externally managed**.

When performing their risk assessment procedures, 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 *Identifying and Assessing the Risks of Material Misstatement* (ASA 315).

When relying on the operating effectiveness of an external fund manager's valuation controls, auditors should review the controls report provided by the other auditor and:

- challenge and assess the sufficiency of controls identified and tested
- where necessary, make further inquiries of the other auditor (directly or through the RSE) to understand the valuation controls, and
- where gaps are identified, obtain further assurance over controls from the other auditor (directly or through the RSE) or revise their own audit approach.

See ASA 500 *Audit Evidence* (ASA 500) and ASA 330 *The Auditor's Responses to Assessed Risks* (ASA 330).

When relying on the operating effectiveness of an RSE's controls over an external fund manager, 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.

When performing substantive procedures, 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 *External Confirmations* (ASA 505).

Note: 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).

When performing other substantive procedures when audited financial reports for unlisted investments are not available or do not cover the full financial year, auditors should (directly or through RSEs):

- 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 *Auditing Accounting Estimates and Related Disclosures* (ASA 540), or
- where relevant, obtain reliance from the work of the other auditor through agreed substantive audit procedures for the year-end valuation.

Note: 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.

When performing other substantive procedures in conducting a fair value movement analysis between the RSE's balance date and the date of the last audited financial report, auditors should consider:

- price movements against recent market movements of the underlying assets, and
- other current information.

See ASA 500.

Note: Work on movement analysis for periods greater than three months is less likely to give sufficient assurance over year end investment values.

When assessing the impact of information limitations on the audit opinion (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:

- understand the nature of the limitation of scope and whether it results in an increased risk requiring further audit procedures
- assess whether the limitation would result in a modified audit opinion, and
- consider the need to report matters to those charged with governance and APRA.

See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* (ASA 705), ASA 260 *Communication to Those Charged with Governance* (ASA 260) and ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* (ASA 265).

When auditing the valuation of directly held unlisted investments, auditors should test and challenge the reasonableness of any key RSE's judgements and assumptions applied in the valuation: see ASA 540.

Note: The above does not constitute an exhaustive list of audit procedures and auditing standards that the auditor should consider when auditing RSEs' unlisted investments.

Audit materiality

An RSE auditor must use their professional judgement to determine audit materiality under ASA 320 *Materiality* (ASA 320). This includes taking into account the information needs of the users of the RSE financial report. The auditor needs to obtain reasonable assurance about whether the RSE financial report as a whole is free from material misstatement. Misstatements are considered material if they could reasonably be expected to influence the economic decisions of users.

What we found

Given the sizes of the RSEs, the level of audit materiality determined by RSE auditors across the five surveillances was large and ranged from tens of millions to billions of dollars.

The five auditors calculated quantitative materiality by:

- determining that either total assets or net assets was the appropriate base, and
- applying either 1% or 2% to this base (e.g. 1% of $10 billion net assets equals materiality of $100 million).

Audit materiality affects:

- the scope and extent of audit work performed, and
- the value of errors that may not be investigated or corrected.

Higher materiality means larger valuation variances and anomalies may not be investigated, and the audit work on the accuracy and disclosure of expenses is limited.

What auditors should do

When setting audit materiality for RSEs, auditors should apply professional judgement and carefully consider the requirements in ASA 320, and the following:

- 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.
- Is any class of transaction, balance or disclosure qualitatively material – for example, sponsorship and advertising expenses?

Audit documentation

What we found

In two of our audit surveillances, we also found that auditors could improve their audit documentation. Our view is that this did not pose a risk of material misstatement in the audit. But it highlights situations where the auditor or audit firm could improve its practices to ensure they comply with the documentation requirements under ASA 230 *Audit Documentation* (ASA 230).

- **Documentation for directly held Level 3 financial investments:** We found one auditor could improve the documentation of explanations and testing of some of the RSE's assumptions used in valuations of unlisted investments.
- **Documentation for audit work on investments:** We found one auditor could improve the documentation of their basis of reliance on, or the extent of their review of, the other auditors' work.

What auditors should do

When documenting audit work, auditors should apply the requirements of ASA 230 and ensure that the audit engagement file sufficiently documents the:

- the audit procedures performed
- the evidence obtained
- the basis for conclusions reached, including any professional judgements made, and
- the basis of their reliance on, and the extent of their review of, the other auditors' work.

Audit documentation must be recorded in a timely manner.

Appendix 1: Roles and responsibilities

Superannuation trustee roles and responsibilities

Superannuation trustees and preparers of RSE financial reports have a critical and ongoing role in supporting high quality financial reports and audits.

The SIS Act and the Corporations Act set out superannuation trustee responsibilities. There are key foundational building blocks that support high-quality outcomes:

- **High quality and timely financial information** supported by robust position papers, with appropriate analysis and conclusions referencing relevant accounting standards.
- **Robust investment governance framework** for the selection, management and monitoring of investments, including processes, procedures and controls necessary to identify and manage valuation risk of investments.
- **Adequate resources, skills and expertise** applied in the reporting process. Comprehensive, contemporaneous position papers should support the conclusions reached, particularly in areas that have significant estimation uncertainty and judgement (e.g. asset values, revenue recognition and provisions).
- **Clear, effective communication with the auditor**, addressing risks affecting the information in the financial report.
- **Robust auditor selection** with accountable procedures, appropriate audit fees and clear communication channels between the auditor and the audit committee.

Note: For more information, see Information Sheet 196 *Audit quality – The role of directors and audit committees* (INFO 196), Information Sheet 223 *Audit quality – The role of others* (INFO 223) and Prudential Standard SPS 530 *Investment Governance* (SPS 530) (PDF 344 KB).

Audit firm and auditor roles and responsibilities

The Corporations Act and ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* (ASA 220) set out the auditor's roles and responsibilities.

To support the delivery of quality audit services audit firms should:

- **design, implement and operate** a system of quality management in accordance with ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (ASQM 1), and
- **prepare transparency reports** that are clear and concise and inform the market about the firm's audit quality.

Note: Information Sheet 222 *Improving and maintaining audit quality* (INFO 222) outlines considerations and examples of initiatives for audit firms to improve and maintain audit quality.

Appendix 2: Accessible version of Figure 1

This appendix is for people with visual or other impairments. It provides the underlying data for Figure 1.

Table 3: Investments in each fair value hierarchy category related to ASIC finding

Fair value hierarchy	Value	Findings	No findings
Level 1	**$59 billion**	**0%**	**100%**
Level 2	**$154 billion**	**32%**	**68%**
Level 3	**$73 billion**	**72%**	**28%**

Note: This is the data shown in Figure 1.

Key terms and related information

Key terms

AASB	Australian Accounting Standards Board
accounting standards	Standards issued by the Australian Accounting Standards Board under s334 of the Corporations Act
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
auditing standards	Standards issued by the Auditing and Assurance Standards Board under s336 of the Corporations Act
auditor	An individual registered company auditor, the lead auditor (as defined under s11F of the SIS Act and s324AF(1) of the Corporations Act) of an audit firm, or the lead auditor of the audit company
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
fund manager	Means: › a responsible entity of a registered (retail) managed investment scheme, trustee of an unregistered (wholesale) managed investment scheme, or › in relation to valuation, a person (including an external investment manager) engaged to value MIS units, MIS underlying assets or unlisted investments
materiality	**In the context of financial reporting** An amount is material if it is information which, if omitted, misstated or not disclosed, could reasonably be expected to influence decisions made by the users of a financial report **In the context of an audit** In conducting an audit of RSE financial reports, the auditor must use professional judgement to determine audit materiality under ASA 320, with regard to the information needs of the users of RSE financial reports. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users
MIS	Managed investment scheme
MIS investment	Managed investment scheme investment – where an RSE holds a unit in a managed investment scheme and the scheme holds the underlying assets
other auditor	An auditor (as defined above), who is not the lead auditor, that undertakes work that the auditor may use

RSE	Registrable superannuation entity. Has the meaning given in s9 of the Corporations Act, when used in Chapter 2M. For the purposes of this report, a reference in this report may include a reference to the RSE licensee responsible for discharging the obligations of the RSE. Under s 285(3A) and 345AAA of the Corporations Act, the RSE licensee is responsible for the obligations of the RSE
SIS Act	*Superannuation Industry (Supervision) Act 1993*
superannuation trustee	A person or group of persons licensed by APRA under s29D of the SIS Act to operate a registrable superannuation entity (also known as an 'RSE licensee')

Related information

Legislation

Corporations Act 2001

Superannuation Industry (Supervision) Act 1993

Treasury Laws Amendment (2022 Measures No. 4) Act 2023

Accounting, Auditing and Prudential standards

AASB 13 *Fair Value Measurement*

AASB 1056 *Superannuation Entities*

ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

ASA 230 *Audit Documentation*

ASA 260 *Communication to Those Charged with Governance*

ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

ASA 315 *Identifying and Assessing the Risks of Material Misstatement*

ASA 320 *Materiality*

ASA 330 *The Auditor's Responses to Assessed Risks*

ASA 500 *Audit Evidence*

ASA 505 *External Confirmations*

ASA 540 *Auditing Accounting Estimates and Related Disclosures*

ASA 705 *Modifications to the Opinion in the Independent Auditor's report*

ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*

SPS 530 *Investment Governance* (PDF 344 KB)

ASIC documents

INFO 196 *Audit quality – The role of directors and audit committees*

INFO 222 *Improving and maintaining audit quality*

INFO 223 *Audit quality – The role of others*

25-079MR *ASIC announces financial reporting and audit focus areas for FY 2025–26* (19 May 2025)

Other information

The ASIC–APRA relationship

Governance of unlisted asset valuation and liquidity risk management in superannuation, APRA