

Challenger Retirement Fund

ABN 87 883 998 803

General Purpose

Annual Financial Report for the
year ended 30 June 2021

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Trustee's declaration to the members

In the opinion of the Directors of Challenger Retirement and Investment Services Limited, the Trustee of Challenger Retirement Fund:

- the accompanying financial statements of the Challenger Retirement Fund (the Fund) are properly drawn up so as to present fairly the financial position of the Fund as at 30 June 2021 and the results of its operations for the year ended on that date in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia; and
- the Fund has been conducted in accordance with its constituent Trust Deed dated 2 September 1993 (as amended) and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the *Corporations Act 2001* and Regulations and Guidelines during the year.

Signed in accordance with a resolution of the Directors of the Trustee of Challenger Retirement Fund.



A Bofinger

Sydney

28 September 2021



J Haggerty

Sydney

28 September 2021

Statement of comprehensive income

For the year ended 30 June	Note	2021 \$'000	2020 \$'000
Superannuation activities			
Investment return - Life Office policies		8,757	12,485
Total superannuation activities revenue		8,757	12,485
Net income from superannuation activities		8,757	12,485
Profit from operating activities			
Less: Net benefits allocated to members' accounts		(12,534)	(15,184)
Loss before income tax		(3,777)	(2,699)
Income tax expense	3	—	—
Loss after income tax expense		(3,777)	(2,699)

The statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June	Note	2021 \$'000	2020 \$'000
Assets			
Investments - Life Office policies		501,045	551,529
Total assets		501,045	551,529
Liabilities			
Net assets available for member benefits	4	501,045	551,529
Member benefits			
Allocated to members	4	488,902	535,609
Unallocated to members		—	—
Total members liabilities		488,902	535,609
Net assets		12,143	15,920
Equity			
Investment reserve		12,143	15,920
Total equity		12,143	15,920

The statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in member benefits

For the year ended 30 June	Note	2021 \$'000	2020 \$'000
Opening balance of member benefits		535,609	620,241
Contributions:			
Employer contributions		135	175
Member contributions		7,696	7,824
Transfers in from other superannuation plans		37,125	5,693
Income tax paid on contributions		(2)	(20)
Net after tax contributions		44,954	13,672
Benefits to members/beneficiaries		(103,878)	(113,220)
Insurance premiums charged to members' accounts		(417)	(370)
Death and disability benefits credited to members' accounts		100	102
Benefits allocated to members' accounts, comprising:			
Net investment income		12,534	15,184
Closing balance of members benefits	4	488,902	535,609

The statement of changes in member benefits should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June	Note	Unallocated surplus/ (deficiency) \$'000	Investment reserve \$'000	Total equity \$'000
Balance at 1 July 2020		—	15,920	15,920
Loss for the period		(3,777)	—	(3,777)
Net transfer to/(from) reserves		3,777	(3,777)	—
Balance at 30 June 2021		—	12,143	12,143
Balance at 1 July 2019		—	18,619	18,619
Loss for the period		(2,699)	—	(2,699)
Net transfer to/(from) reserves		2,699	(2,699)	—
Balance at 30 June 2020		—	15,920	15,920

The statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June	Note	2021 \$'000	2020 \$'000
Operating activities			
Term life insurance benefits received from MetLife		100	102
Term life insurance benefits paid to members		(100)	(102)
Term life insurance premiums received from members		417	370
Term life insurance premiums paid to MetLife		(417)	(370)
Net cash (outflows)/inflows from operating activities	9	—	—
Investing activities			
Proceeds from sale of Life Office policies		103,878	113,220
Payments for purchase of Life Office policies		(44,537)	(13,302)
Net cash inflows from investing activities		59,341	99,918
Financing activities			
Employer contributions		135	175
Member contributions		7,279	7,454
Transfers in from other superannuation plans		37,125	5,693
Benefits paid to members/beneficiaries		(103,878)	(113,220)
Income tax paid on contributions received		(2)	(20)
Net cash outflows from financing activities		(59,341)	(99,918)
Net (decrease)/increase in cash and cash equivalents		—	—
Cash and cash equivalents at the beginning of the year		—	—
Cash and cash equivalents at the end of the year		—	—

The statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Basis of preparation and overarching significant accounting policies

The financial report of Challenger Retirement Fund (the Fund) for the year ended 30 June 2021 was authorised for issue in accordance with a resolution of the Directors of Challenger Retirement and Investment Services Limited on 28 September 2021.

1.1. Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, the *Superannuation Industry (Supervision) Act 1993* and its Regulations and the provisions of the Trust Deed.

The Fund is a for profit entity for the purpose of preparing financial statements. The financial statements are presented in Australian Dollars and all values are rounded to the nearest \$1,000 except where otherwise indicated.

1.2. Statement of compliance

The financial report complies with Australian Accounting Standards to the extent applicable. Since AASB 1056 Superannuation Entities is the principal standard that applies to the financial statements, other standards are also applied where necessary except to the extent that they differ from AASB 1056 Superannuation Entities.

1.3. New and revised accounting standards and interpretations

The accounting standards and methods of computation are the same as those adopted in the financial report for the prior comparative year. Where applicable, comparative figures have been updated to reflect any changes in the current period.

Accounting standards and interpretations issued but not yet effective

There are no new accounting standards and interpretations that have been issued, but not yet effective, that are material to the financial statements or have been early adopted for the year ended 30 June 2021.

Changes in accounting policy or disclosure

There were no changes in accounting policy applied during the year.

1.4. Assets

Assets are included in the statement of financial position at fair value through profit or loss as at the reporting date and changes in the fair value through profit or loss of assets are recognised in the statement of comprehensive income as investment revenue in the periods in which they occur.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Market values have been determined as follows.

Life Office policies

The Fund holds policies with Challenger Life Company Limited (CLC) (ABN 44 072 486 938) (the Life Office policies), which are determined under commercial terms and conditions.

The Life Office policies are classified as either investment account policies or annuity policies. Benefits consist of a Guaranteed Personal Superannuation Plan, a Guaranteed Allocated Pension Plan and individual annuity policies. Life Office policies included in the financial statements are based on CLC's assessment of the present value at the reporting date of payments due to the Fund under the policies. As the life policies that back the Challenger Guaranteed Lifetime Pension Plan product are lifetime annuities, mortality rates are also applied in determining the present value of these Life Office policies.

1. Basis of preparation and overarching significant accounting policies (continued)

1.4. Assets (continued)

Insurance

The Fund also purchases term life insurance policies from MetLife for its relevant members to back obligations under the Challenger Term Life (under super) Plan. The term life premiums paid equal the total amount of contributions received from those members during the financial period. The Fund does not disclose these insurance policies as an asset in the statement of financial position. The Fund acts only as an agent in respect of the insurance arrangements it has in place for its members.

1.5. Investment return

This is the sum of the unwind of interest implicit in the calculation of the net present value of the Life Office policies, plus the impact of changes in market interest rates on this present value calculation.

1.6. Investment reserve

The Fund's investment assets (the Life Office policies) are measured at fair value through profit or loss, being the present value of all discounted future payments due to the Fund at the reporting date.

The Fund's total member liabilities are measured at the undiscounted value of the member account balance at the reporting date.

The net asset or liability position of the Fund is equal to the total equity or investment reserve in the statement of financial position.

This investment reserve arises due to the timing difference in valuation methodology between the Fund's assets and liabilities. This is in line with the relevant accounting standards.

1.7. Expenses

Operating expenses incurred by the Fund are borne by CLC.

1.8. Income tax

The Fund is a complying superannuation fund for the purposes of the provisions of the *Income Tax Assessment Act 1997*. Accordingly, the concessional tax rate of 15% has been applied to the Fund's taxable income. Pursuant to section 295-260 of the *Income Tax Assessment Act 1997*, as amended, CLC has assumed liability for the Fund's tax payable of \$1,954 (30 June 2020: \$19,835) on taxable contributions received net of allowable deductions.

Income tax is reflected in the statement of cash flows and the statement of changes in member benefits.

1.9. Operational risk financial requirement

The Trustee holds an operational risk reserve for the Fund under Superannuation Prudential Standard 114: Operational Risk Financial Requirement (SPS 114). SPS 114 requires a Registrable Superannuation Entity (RSE) licensee to maintain adequate financial resources to address losses arising from operational risks that may affect the RSE licensee within its business operations. The reserve is funded in accordance with SPS 114.

1.10. Significant accounting judgements, estimates and assumptions

The carrying value of the Life Office policies recognised on the statement of financial position is based on CLC's assessment of the present value of the payments due to the Fund, which is based on estimates and assumptions of future events. The key estimates and assumptions that may have had a significant impact on recognised amounts on the statement of financial position had different assumptions been adopted are future mortality rates.

Coronavirus (COVID-19) impact

COVID-19 is a respiratory illness which was declared a pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global and domestic economies. In preparing these financial statements, the Fund has considered the impacts of COVID-19 on the Fund's assets, liabilities and disclosures for the year ended 30 June 2021. As at reporting date, there has been minimal impact on assets and liabilities and on the going concern of the Fund.

The nature of COVID-19 continues to evolve and the financial and economic impacts are still taking shape. This may result in changes to the future estimates and outcomes applied to the measuring of the Fund's assets and liabilities. No major adjustments have been reflected in the financial statements up to the reporting date.

2. Description of the Fund

The Fund is a defined contribution superannuation plan and was established pursuant to the Deed dated 2 September 1993, as amended. The Trustee at balance sheet date is Challenger Retirement and Investment Services Limited (ABN 80 115 534 453).

Member benefits of Challenger Retirement Fund are backed by master Life Office policies with CLC, individual policies with CLC and a master term life policy with MetLife. Administration of the Fund is conducted by CLC and MetLife in relation to the respective policies.

The principal place of business of the Fund is as follows.

Level 2
5 Martin Place
Sydney NSW 2000

3. Income tax

	30 June 2021 \$'000	30 June 2020 \$'000
Analysis of income tax expense		
Loss before income tax	(3,777)	(2,699)
Income tax benefit calculated at 15%	567	406
Tax effect of adjustments in calculating taxable income		
Non-assessable / deductible items	(567)	(406)
Taxable contributions	(65)	(75)
Allowable deductions	63	55
Transfer of tax liability to CLC	2	20
Income tax expense	—	—

CLC has assumed liability for the taxation payable by the Fund from member contributions. Amounts assessed and paid are deducted from members' accounts.

4. Member liabilities

Member liabilities are measured as the accrued benefits of members. For defined contribution superannuation plans, accrued benefits of members are measured as the amount of member account balances as at the reporting date.

	30 June 2021 \$'000	30 June 2020 \$'000
Member liabilities at end of the financial year	488,902	535,609
As compared to net assets available to pay benefits	501,045	551,529

5. Vested benefits

Vested benefits are benefits that are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and includes benefits which members who have reached retirement age are entitled to receive had they terminated their Fund membership as at the reporting date. The difference between members liabilities and vested benefits include unvested amounts and the difference between member balances and withdrawal value.

	30 June 2021 \$'000	30 June 2020 \$'000
Vested benefits at the end of the year	436,775	504,559

6. Guaranteed benefits

In accordance with the terms of the Life Office policies, both MetLife Insurance Limited (MetLife) and CLC guarantee to pay members benefits in full when due.

7. Risk management

Investments of the Fund comprise Life Office policies. The Trustee has determined that this type of investment is appropriate for the Fund and is in accordance with the Fund's published investment strategy. The Trustee seeks information from CLC to determine the nature and extent of any risks to which CLC is exposed.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk includes (amongst others) three types of risk: interest rate risk (due to fluctuations in interest rates), currency risk (due to fluctuations in foreign exchange rates), and price risk (due to fluctuations in market prices). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

CLC is exposed to underlying market risks of the investments backing the policies, however, as the policies are on fixed terms (return and maturity) and are not on-sellable, the ultimate returns to members are not impacted by market risk. Market risk is not a direct risk to the Fund due to the terms of the Life Office policies that guarantee member benefits as described in Note 6.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

Credit risk for the Fund is that CLC or MetLife do not meet their obligations. CLC is regulated by the Australian Prudential Regulatory Authority and has a S&P Global Rating of A (2020: S&P Global Rating of A), which is reviewed on an annual basis. MetLife has a S&P Global Rating of A (2020: S&P Global Rating of A).

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet cash commitments. This may result from either the inability to sell financial assets at their fair values, a counterparty failing on repayment of a contractual obligation, or the inability to generate cash inflows as anticipated.

The Fund is not directly subject to liquidity risk as the terms of the Life Office policies guarantee payments for member benefits in full when due as described in Note 6. Voluntary withdrawal payments are at call and the timing of these payments is uncertain.

Fair value determination and classification

Life Office policies are financial instruments recorded at fair value. The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Fund offers members the following products that are backed by Life Office policies:

- Challenger Guaranteed Personal Superannuation;
- Challenger Guaranteed Allocated Pension;
- Challenger Guaranteed Income Pension Plan (closed product);
- Challenger Guaranteed Lifetime Pension Plan (closed product); and
- Challenger Guaranteed Term Allocated Pension (closed product).

Life Office policies backing the Fund's products (apart from Challenger Guaranteed Lifetime Pension Plan) are fixed term policies. Inputs used in the determination of fair value are market observable hence the policies are classified as level 2 financial instruments under the fair value hierarchy.

Challenger Guaranteed Lifetime Pension Plan is a lifetime annuity product (closed to new investors) that includes mortality assumptions which are unobservable in determining its valuation. Life Office policies backing these products are therefore classified as level 3 financial instruments under the fair value hierarchy.

The Fund transfers between levels of the fair value hierarchy when there is a change in the observability of the pricing inputs or a change to valuation methodology. There were no transfers between levels of the fair value hierarchy during the reporting period.

The tables below set out the Fund's Life Office policies measured at fair value at each level of the fair value hierarchy as at the statement of financial position date.

7. Risk management (continued)

Fair value determination and classification (continued)

30 June 2021

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Life Office policies	—	455,681	45,364	501,045
Total	—	455,681	45,364	501,045

30 June 2020

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Life Office policies	—	528,532	22,997	551,529
Total	—	528,532	22,997	551,529

Level 3 reconciliation

The following table shows a reconciliation of the movement in the fair value of Life Office policies categorised within level 3 of the fair value hierarchy during the year.

	30 June 2021 \$'000	30 June 2020 \$'000
Life Office policies		
Opening balance	22,997	25,621
Fair value gains/(losses) ¹	1,608	(287)
Acquisitions	26,070	—
Maturities and disposals	(5,311)	(2,337)
Closing balance	45,364	22,997

¹ Fair value gains/losses are the unrealised gains/losses included in the statement of comprehensive income held at the end of the year as the products that invest in level 3 Life Office policies are closed.

Valuation process

For financial instruments categorised within level 3 of the fair value hierarchy, the valuation process applied in valuing such instruments is governed by CLC's Practice Note on Investment Asset and Financial Liability Valuation. The Practice Note outlines the responsibilities in the valuation of investment assets and financial liabilities for the purposes of financial reporting. All significant Level 3 financial instruments are referred to the CLC Valuation Committee, which generally meets monthly, or more frequently if required.

Level 3 sensitivity

The table below shows the sensitivity of level 3 Life Office policies to a reasonably possible change in the non-observable input.

	Level 3 value \$'000	Positive impact \$'000	Negative impact \$'000	Valuation technique	Reasonably possible change in non-observable input
30 June 2021					
50% increase/(decrease) in the rate of mortality improvement	45,364	1,513	(1,513)	Discounted cash flow	Mortality rate
30 June 2020					
50% increase/(decrease) in the rate of mortality improvement	22,997	829	(829)	Discounted cash flow	Mortality rate

8. Related party transactions

The Trustee of the Fund is Challenger Retirement and Investment Services Limited.

Directors

Key management personnel includes persons who were Directors of Challenger Retirement and Investment Services Limited during the financial year and up to the date of this report, unless otherwise stated.

D Bennett	Independent Non-executive Director	
A Bofinger	Executive Director	
C Dube	Independent Non-executive Director	
J Haggerty	Executive Director	(Appointed: 30 March 2021)
B Koster	Independent Non-executive Director	
A Tobin	Executive Director	(Resigned: 30 March 2021)

The Fund holds policies with CLC, which is a related party to the Trustee under the Challenger Limited group.

During the year, the Trustee charged the Fund a fee of \$863,491 (excluding GST) (2020: \$706,000) for trustee services. CLC paid for the fee on behalf of the Fund.

There are no related party transactions during the year between the Fund and any of the Directors listed in Note 8.

9. Reconciliation of profit to operating cash flow

	30 June 2021	30 June 2020
	\$'000	\$'000
Reconciliation of profit to net cash flow from operating activities		
Loss after tax	(3,777)	(2,699)
Adjusted for:		
Net benefits allocated to members' accounts	(12,534)	(15,111)
Investment return - Life Office policies	8,757	12,412
Net cash flows from operating activities	—	—

10. Segment information

Business segments

The Fund operates solely to provide benefits for its members in accordance with the Trust Deed and the provisions of the *Superannuation Industry (Supervision) Act 1993*.

Geographical segments

The Fund operates in Australia and the primary assets it invests in on behalf of its members are managed and administered in Australia.

11. Remuneration of auditor

Auditor's remuneration in respect of this Fund is incurred and paid by a related party, Challenger Group Services Pty Limited, a subsidiary of the ultimate parent entity, Challenger Limited.

12. Subsequent events

On 23 September 2021, the Board made a decision to close the Challenger Guaranteed Personal Superannuation and Challenger Guaranteed Allocated Pension products to new members, effective on or before 4 October 2021.

Other than the above, at the date of this financial report, no matter or circumstance has arisen that has affected, or may significantly affect the Fund's operations, the results of those operations or the Fund's state of affairs in future financial years, which has not already been reflected in this report.

13. Contingent liabilities, contingent assets and credit commitments

The Fund does not have any contingent liabilities, contingent assets or credit commitments as at 30 June 2021 (2020: nil).



**Building a better
working world**

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Challenger Retirement Fund (ABN: 87 883 998 803)

Report by the RSE auditor to the trustee and members

Opinion

I have audited the financial statements of Challenger Retirement Fund ("RSE") for the year ended 30 June 2021, comprising the statement of financial position, statement of comprehensive income, statement of changes in member benefits, statement of cash flows and statement of changes in equity.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of Challenger Retirement Fund as at 30 June 2021 and the results of its operations, cash flows, changes in equity and changes in member benefits for the year ended 30 June 2021.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities section of my report. I am independent of the entity in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Trustee for the Financial Statements

The RSE's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the *Superannuation Industry (Supervision) Act 1993 (SIS Act)* and the *Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations)*. The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the RSE or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, I exercised professional judgement and maintained professional scepticism throughout the audit. I also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RSE's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee
- Concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my auditor opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the RSE to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicated with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.



Graeme McKenzie
Partner
Sydney
28 September 2021