

### **Auditing Funds by Jon Tricker, Deloitte, Gibraltar.**

As is the case with any company, the statutory audit of an investment fund requires the auditor to reach an opinion on whether the annual financial statements of the fund give a true and fair view of the company's annual results and year-end position (amongst other things). In addition, the fund's administrator produces periodic net asset value calculations, on the basis of which investors subscribe into and redeem out of funds. The year-end net asset value may well be different to the net assets according to the annual financial statements as certain business assets may be valued or treated differently, depending on the policies of the fund.

Whilst there is no requirement for the auditor to give an opinion on the periodic net asset values, or indeed the year-end net asset valuation, auditors are concerned to ensure that investors have not been and could not be prejudiced by incorrect net asset values. To that end, auditors are interested to evidence that net asset values have been subjected to scrutiny by the directors, and to ensure that the calculations are performed consistently in accordance with appropriate policies and in a framework of good corporate governance and controls.

Probably the biggest issue any fund faces lies in the valuation of its assets, particularly where some or all of the assets are not frequently traded (meaning that fair values can not easily be evidenced by the administrator and auditor). In an ideal world, funds would be structured in ways to ensure that possible disputes over valuation are not possible – for example a fund which only invests in one real estate development could be set up so that investors are allowed in at the start of the project, but no redemptions are allowed until the project is complete. In practice this is not always the case and the auditor plays an important governance role in such cases. As such, the number one issue considered by auditors is likely to be the valuation of the fund's investments.