

ATO Guidance and Property Valuation – Commercial

The ATO recently updated their guidance on SMSF valuations. In this article we consider fund compliance with *Superannuation Industry Supervision Regulation (SISR) 8.02B* and discuss property market value information gathering and its consideration by the trustee and the auditor.

The updated ATO guidance highlights the importance of multiple evidence sources to substantiate the market value of real property each year. This is unless the property has recently been purchased by the fund (within 6 months of year-end).

When valuing real property, relevant factors and considerations may include:

- The value of similar properties and recent comparable sales.
- The amount that was paid for the property in an arm's length market – provided the purchase was recent and no events have materially affected its value subsequent to purchase.
- Independent appraisal from a real estate agent (kerbside) or a market data report from an online service – where the valuation includes comparable sales of properties similar in nature to the property held by the SMSF or other relevant comparable data.
- Whether the property has undergone improvements since it was last valued.
- The rates notice (provided it is consistent with other valuation evidence).
- For commercial properties, net rental income yields, noting that rental income yield is not sufficient evidence on its own and, is only appropriate where a tenant is unrelated.

Our audit response has been based on the provision of one source of evidence, i.e. the expert opinion, rather than 2 or more sources of evidence. You will note changes that will be implemented from 1 July 2023 as follows:

2022 AUDIT RESPONSE	2023 AUDIT RESPONSE
<p>We raise an Audit Completion Letter (ACL) advising the trustee where the following occurs:</p> <ul style="list-style-type: none"> • The market appraisal or valuation report has been provided without any comparable data; and • The trustee does not provide other supporting evidence to support the value and there is market data available. 	<p>We will raise a Key Audit Matter where the following occurs:</p> <ul style="list-style-type: none"> • The market appraisal or valuation report has been provided with no comparable data; and • The trustee does not provide other supporting evidence to support the value.

COMMERCIAL PROPERTY VALUATIONS

General commercial property valuation requirements:

- Where the property has been recently purchased or disposed, we accept sales within 6 months of balance date.
- A market appraisal from a real estate agent or valuation report from a qualified independent valuer:
 - This valuation should provide evidence such as yield, comparable sales, and/or price per lettable floor area, of properties similar in nature to the SMSF's.
 - Comparable property data should be within 6 months of year-end or valuation to support the value as per market appraisal.
- Self-assessed trustee valuation – Trustees can use data from commercial/industrial research reports, in conjunction with prior valuations and website data to assess changes in similar commercial property groups. The data report should be within 6 months of year end.
- The trustee must obtain a specific market appraisal or valuation every 3 years.
- Each year, the trustee must consider **the valuation** is not **materially inaccurate**.
 - If the trustees believe there is no identified change in the market value of the property, their annual minute must document their considerations, including supportable data.

From FY2023, the trustee must attach additional supporting data to evidence their assessment.

Matters to consider include:

- The ATO suggests two points of reference for valuations. This may include yield, comparable sales, and/or price per lettable floor area to be included in, or in conjunction with, a commercial real estate agent appraisal.
- Net income yield is not sufficient evidence on its own, particularly if the property is leased to a related party.
- Commercial property report providers are listed below. These reports provide broad data sets based on specific areas in the form of average price per square meter and income yield.

<https://www.commercialrealestate.com.au/>

<https://www.colliers.com.au/en-au/countries/australia/our-research>

<https://www.jll.com.au/en/trends-and-insights/research>

<https://www.cbre.com.au/insights#market-reports>

AUDITOR RESPONSIBILITY AND REPORTING REQUIREMENTS

Pursuant to Auditing Standard *ASA 500 Audit Evidence*, the auditor must obtain sufficient appropriate evidence, either from the trustee or external sources, to form an opinion as to the SMSF compliance with *Regulation 8.02B of SISR*. The auditor must also evidence any judgments made in their audit file. This must include judgements about the accuracy and completeness of the information from experts pursuant to the Auditing Standards.

The auditor responsibility is to obtain evidence to support the trustee's rationale for determining the market value of each asset (or class of asset). It is not the role of the auditor to value fund assets or to determine their market value. The auditor role is to review the evidence to support that assets have been reported at market value by the trustees and assess and document whether, in their view, the basis for that valuation is appropriate given the nature of the asset.

We are required to advise the ATO via the Auditor Contravention Report (ACR) when the trustee is unable to obtain evidence to support the market value of an asset subject to the financial reporting criteria and trustee behaviour test. Where any of the following occur, we are required to consider whether we have sufficient evidence to form our audit opinion and whether a Part A and Part B qualification is required of our audit report, and whether the matter is required to be reported to the ATO, via an ACR, where the reporting criteria are met:

- Where there is insufficient evidence that the assets are valued at market value; or
- Where we are unable to obtain sufficient appropriate audit evidence that the assets are valued at market value.

If we are unsure that this would constitute a reportable contravention, as noted within the ATO guidance, we are required to report to the ATO via an ACR the lack of sufficiency of evidence within the "Other Regulatory information", Section G, of the ACR.