



ATO Property Valuation Guidance Considerations – 2024FY



Agenda

- ▶ ATO Property Valuation Guidance Audit Considerations
 - ATO guidance refresher
 - Trustee & auditor responsibility
 - Audit response findings FY2023
 - Audit reporting Considerations & Settings - FY2024
 - Examples (Daria)
 - Questions (Jessie)

- ▶ Trustee responsibility ATO Guidance refresher
 - ▶ Fund assets are recorded at market value at year end;
 - ▶ The values are determined based on objective and supportable data; and
 - ▶ To provide all relevant documents requested by the auditor.

- ▶ Trustee responsibility ATO Guidance refresher
- ▶ Evolv requested documentation:
 - ▶ Trustee minute articulating evidence of market value.
 - ▶ Supporting market value evidence.
 - ▶ Evolv minute e.g. templates Client Library.
 - ▶ Evidence documenting the trustee consideration of the information is requested due to the nature of the valuation data input not being directly observable.

- ▶ Guidance provided by the Fair value Accounting Standard Observable vs unobservable inputs
- ▶ The ATO guidance focuses on observable inputs.

- ▶ **Observable**

- Level 1 inputs (direct)

- Quoted prices (unadjusted) in active markets for identical assets able to be accessed at the measurement date

- Most reliable

- Level 2 inputs (indirect)

- quoted prices for similar assets in active or inactive markets other than quoted prices

- Other inputs are observable

- ▶ **Non Observable**

- Level 3 inputs are unobservable inputs for the asset

- Employed where no observable inputs

▶ Auditor responsibility ATO Guidance refresher

- ▶ Not to value the assets of the fund.
- ▶ To assess and document whether the basis of the valuation determined by the trustee is appropriate.

i.e. the values are determined based on relevant objective and supportable data;

Should the auditor determine the evidence does not support the proposed market value, or the ATO Guidance, relevant data gathered by the auditor is shared with the trustee for their consideration.

▶ Audit response FY2023

- ▶ Number of queries for FY2023 related to property market value information not supporting the ATO guidance.
- ▶ Residential property common audit queries
 - ▶ Market data reports such as Core Logic (RP Data) where properties not comparable, and confidence level of report not reliable.
 - ▶ On-line market data reports from e.g. real estate.com.au with indicative market value where comparable properties are properties for sale.
 - ▶ Reports dated post period end where material market movement had occurred in suburb post FY2023.

▶ Audit response FY2023

▶ Commercial and Rural property common audit queries and exceptions:

- ▶ Properties not supported with a recent market appraisal within 18 months (commercial) of 30/06/2023 or 12 months (rural).
- ▶ Market data information not provided to support that the non-recent market appraisal was relevant evidence as at 30/06/2023.
- ▶ ATO guidance not met for market appraisals provided
 - ▶ 2 Anchor points (sales comparable or capitalization rate eg)
 - ▶ Rural remote commercial capitalization rate only based on rule of thumb

- ▶ FY2023 Clients with few audit queries associated with property asset market value evidencing:
 - ▶ FY2023 Property Valuation guidance applied consistently.
 - ▶ Pre-audit query process used to support individual funds where not sure evidence was sufficient.
 - ▶ Clients with audit review process of property during July & August to clarify further audit evidence required had the least number of exceptions.

- ▶ Our aim is to reduce queries for FY2024 to a “few” exceptions for all clients.
- ▶ To support this the following general support is available:
 - ▶ FY2024 Property valuation guidance, including example minute templates (Client library)
 - ▶ Client Webinar – Audit response to ATO guidance refresher for FY2024
 - ▶ Review of FY2024 Property Asset Valuation Data during the 1st quarter (9/2024) is available for all clients
 - ▶ Encourage client use of the pre-audit query process for individual fund market value evidence, where unsure of the Audit response;
 - ▶ Consult where required to support understanding the audit assessment of evidence provided and query raised.

- ▶ Audit reporting considerations and Settings for FY2024
- ▶ Residential Property Market value evidencing
 - ▶ Appraisal or other objective supportable data to support the market value within 6 months of 30/06/2024.
 - ▶ Outside this date range - evidence no material movement in general market data for the location from date of the appraisal to 30/06/2024.
- ▶ Rural Property
 - ▶ Appraisal or other objective supportable data dated 01/07/2023 or subsequent.
 - ▶ Exception geographical regions where drought or other events (refer FY2024 guidance) where 01/07/2022 or subsequent applies.
- ▶ Commercial Property

Appraisal or other objective supportable data dated 01/01/2023 or subsequent.

- ▶ Audit reporting considerations and Settings for FY2024
- ▶ Trustee minute specifying the evidence relied on.
 - ▶ Can be included in the Annual minute or in the form of a declaration.
 - ▶ Extent of detail depends on when the valuation evidence was obtained and nature of the evidence (refer minute examples in client library).

- ▶ Audit report considerations and Evidence Settings for FY2024
- ▶ Key Audit Matter will continue to be raised where the ATO Guidance around anchor points is not met. This is not a qualification of the audit report.
- ▶ Market appraisal (by a relevant expert):
 - ▶ Less than 2 Anchor points (comparable sales or capitalization rate eg) (Trustee should action a valuation that supports ATO guidance)
 - ▶ Sales and other data needs to be comparable. Attaching general market data that is unable to be compared does not meet this evidence requirement. (Trustee should action a valuation that supports ATO guidance)
 - ▶ Rural remote commercial capitalization rate only based on rule of thumb (not anchored) (Audit response no action recommended due to the nature of the properties)

▶ Audit report considerations and Evidence Settings for FY2024

▶ Pricfinder in trial this year

▶ To Assist our audit process. Gathering further audit evidence where the initial evidence provides some but not sufficient evidence. The objective is to support an Audit completion letter response rather than result in an audit report qualification or delay to the audit process.

▶ Where the trustee not intending to refresh the valuation for the current year and you are aware this does not meet the guidance, confirm this within your submission; We will consider general market data evidence and draft the Part A & Part B audit qualification for the trustee consideration.

Residential Property – Example 1 (Appraisal not recent)

- ▶ Appraisal not within 6 months of 30/06/2024
- ▶ e.g Trustee provides a Market appraisal at 31/07/2023
- ▶ Property market appraisal value \$500,000
- ▶ Property Type; Unit Location; Bendigo, Victoria
- ▶ Calculated average decline in market value in units for this regional town to 30/06/2024
 - ▶ -2.08%
 - ▶ [Australia's Top Suburbs \(yourinvestmentproperty.com.au\)](http://yourinvestmentproperty.com.au) (Accesses Core Logic Data)

Residential Property – Example 1 (Appraisal not recent)

- ▶ Appraisal not within 6 months of 30/06/2024
- ▶ Trustee minute to support market value of \$500,000 as at 30/06/2024 with appraisal dated 31/07/2023 and no material change based on general market data. The property value is not adjusted for the median movement in the market
- ▶ This analysis can also be applied where the market appraisal is more than 6 months post period end i.e. 31/05/2025
- ▶ Other relevant websites for summary suburb data:
- ▶ [Australian Median House Prices, Property Market Data & Suburb Profiles – realestate.com.au](https://www.realestate.com.au)

Residential Property – Example 2 (Market data report low confidence)

- ▶ Market data report with low or medium confidence
- ▶ This confidence level is not sufficient to rely on reported range without further analysis of data;
- ▶ Consider the characteristics of the property and comparable property sales per the report within 6 months of 30/06/2024 to narrow the range
- ▶ Document these in the Trustee minute (refer Evolv example template)

Residential Property – Example 2 (Market data report low confidence)

- ▶ eg Market data report at 30/06/2024
- ▶ Property market data report range \$300,000 to \$650,000 Low confidence
- ▶ Property Type; House Location; Orange, NSW
- ▶ Average of range taken \$475,000
- ▶ Comparable properties
- ▶ Property 1 (similar characteristics) Sale price \$325,000 dated 30/09/2024
- ▶ Property 2 (similar characteristics) Sale price \$375,000 31/05/2024
- ▶ Trustee minute to support market value of \$350,000 as at 30/06/2024 including the above comparable properties

Commercial Property – Example 1 (Appraisal not recent)

- ▶ Market appraisal dated 31/03/2022 @ \$500,000
- ▶ Property – Commercial, retail Horsham Victoria
- ▶ Building square metre 350
- ▶ Trustee will not provide an updated valuation until FY2025 audit
- ▶ Provides comparable market sales data for period 01/01/2023 to date in regional town to support no change in market value
- ▶ Trustee minute to support market value of \$500,000 as at 30/06/2024 including above comparable property sales data to support no material change

Commercial Property – Example 2 (Appraisal no comparable data)

- ▶ Market appraisal dated 31/03/2023 @ \$1,000,000
- ▶ Property – Commercial, industrial Horsham Victoria
- ▶ Building square metre 1,000
- ▶ Based on local sales knowledge of agent, no comparable sales data
- ▶ Key Audit Matter – appraisal does not include comparable data
- ▶ Audit Completion Letter – Trustee should action a valuation that supports ATO guidance
- ▶ Trustee minute to support market value of \$1,000,000 as at 30/06/2024 and no material change from valuation date

Commercial Property – Example 3 (Appraisal capitalised rental yield)

- ▶ Appraisal determined based on capitalized rental yield only
- ▶ Regional based (Wycheproof, Victoria)
- ▶ Appraisal states
 - Rule of thumb yield for the specific regional area
 - No relevant comparable sales
- ▶ Audit further Considerations - Expertise of valuer and rental yield applied consistent with prior year or prior appraisal
- ▶ Key Audit Matter reliance on expert and appraisal basis
- ▶ Trustee minute to support market value of \$1,000,000 as at 30/06/2024 and no material change from valuation date

Rural Property – Example 1 (Appraisal not recent)

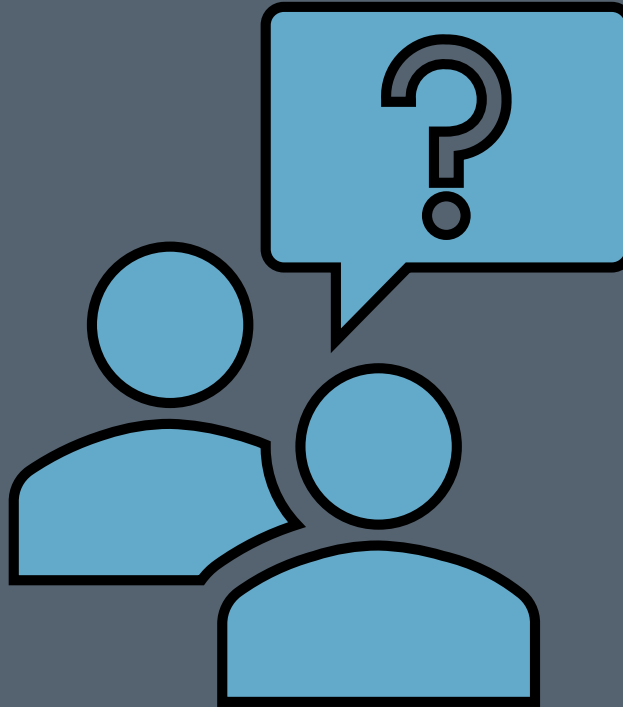
- ▶ Market appraisal local agent dated 30/07/2022 @ \$1.3M
- ▶ Orange, NSW 100 hectares
- ▶ No Comparable sales data
- ▶ Rural Property Market data report for CY2023 indicates no material movement
- ▶ Key Audit Matter appraisal does not include comparable data
- ▶ Audit Completion Letter – Trustee should action a valuation that supports ATO guidance
- ▶ Trustee minute to support market value of \$1.3M as at 30/06/2024 and no material change from valuation date

Rural Property – Example 1 (Areas for Appraisal from 01/07/2022)

State	Region
NSW	Central West and Far West, South East
NT	Whole of State
Queensland	Central Highlands, South East
Tas	Whole of State
SA	Yorke & Mid North
Victoria	Central, East Gippsland and South West
WA	No exceptions

- ▶ Prior Evolv Newsletters and articles
- ▶ Property valuation guidance FY2023 (September 2023 newsletter)
- ▶ Property valuation guidance FY2024 (August 2024 newsletter)
- ▶ Minute example templates available
 - ▶ (Example) Minute Template 4: INVESTMENT IN RELATED UNIT TRUST WITH PROPERTY
 - ▶ (Example) Minute Template – Closely held Unlisted Entity Market value
 - ▶ (Example) Minute Template 3: RESIDENTIAL PROPERTY
 - ▶ (Example) Minute Template 2: RURAL & COMMERCIAL PROPERTY
 - ▶ (Example) Minute Template 1: ALL PROPERTY
- ▶ Prior webinars:
 - ▶ <https://www.youtube.com/watch?v=IOygTxjr-R8&list=PLXNhIGCu0KTdTtFRjPrsrVOjYRZV9DcIL>
- ▶ Trustee references for data: (rural bank reports 2023 & 2024 are in document library)
 - ▶ <https://www.ruralbank.com.au/knowledge-and-insights/>
 - ▶ <https://www.commercialrealestate.com.au/sold/australia/rural-commercial-farming/>
- ▶ Business Real Property:
 - ▶ [https://www.ato.gov.au/law/view/document?DocID=SFR/SMSFR20091/NAT/ATO/00001&PiT=99991231235958#:~:text=1.,Supervision\)%20Regulations%20\(SISR\)](https://www.ato.gov.au/law/view/document?DocID=SFR/SMSFR20091/NAT/ATO/00001&PiT=99991231235958#:~:text=1.,Supervision)%20Regulations%20(SISR))
 - ▶ http://classic.austlii.edu.au/au/legis/cth/consol_act/sia1993473/s66.html

Questions





Thank you for attending our
“Ask the Auditor” webinar

