

Audience Q & As

SMSF Audit Report: Common
Part A & B Qualifications

17 August 2021

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Question 1

Can a qualified report be revisited AFTER it has been submitted to the ATO where the issue has subsequently been resolved?

Answer

No, as the breach had occurred and not rectified until after audit.

Question 2

Can I buy an asset back from my SMSF fund to my personal name? Eg. a suspect investment

Answer

As a related party would need to ensure it is at arm's length and market valuation would be required.

Question 3

Would the \$500,000 loan be a problem if it was the full (or large) percentage of the fund value?

Answer

This loan value would not be a problem in the fund if made to a third party. But you would need to have sufficient evidence on existence and valuation - in particular, loan recoverability. A breach will occur if provided to a member or member's relative as defined by the legislation. You may also have an in-house asset issue if made to a related party.

Question 4

FIIG and BGC who are bond supply companies, no longer prepare Type 2 audit reports and we always now get auditor qualifications that we can never resolve. What can we do about this please?

Answer

No, a qualification is not automatic. If reports are no longer available then the auditor will need to undertake alternative procedures. This will lead to additional effort for the SMSF auditor. I would recommend that a discussion is held with your accountant and auditor on what will be required to be provided by the trustee.

Question 5

Why \$500k to related company loan is not in-house assets?

Answer

Yes, it would be in-house but would not be a breach if it is below the 5% of assets.

Question 6

How do you disclose MV for partly paid shares in an unlisted private company?

Answer

It would depend on the agreement in place. But generally, you would recognise the MV of the share as if fully paid and then reflect a liability for the amount still owing.

Question 7

I understand that the market value is at 30 June. However, is a write down required if the market value of an individual share declines between the balance date and the date of signing the accounts?

Answer

It would depend on why, when and the amount in question. Certainly would be taken into consideration by the auditor as part of subsequent events procedures.

Question 8

If Andrew was of pension age, the answer would be different?

Answer

Yes, if he met condition of release and requested a lump sum withdrawal.

Question 9

In instances where trustees cannot provide suitable material to support a market value of a private (non-related) unlisted investment, are you better off carrying the asset at cost base, and consequently issuing a part a qualification, or reducing the value of the asset to \$1? Or, will the reduction still result in a Part A qualification as the nominal \$1 value is still not considered market value?

Answer

The qualification doesn't go away by writing off the asset. The auditor will still need to assess if the \$1 is market value.

Question 10

Material error of 1% seems high? A fund with assets of \$3.2mill (two persons) has error of \$30,000 acceptable?

Answer

Materiality provides a basis where an amount doesn't immediately lead to an adjustment in the financial statements. However, the auditor will report the errors identified during the audit and it will then be up to the trustee to decide if they wish to amend their financials. An amount above materiality that remains unadjusted would lead to a Part A qualification but below materiality results in reporting the unadjusted amount to the trustee only and with no qualification.

Question 11

SMSF buys \$10k crypto currency invest in July 2021. Is any profit or increase in the coin value taxable in the next tax year?

Answer

No - it would only be taxable when sold, just like any other investment made. Market value increase is unrealised and only when the asset is sold does it become realised and is taxed in the fund.

Question 12

What about overseas private equity investments where the audited statement does not follow the Australian financial year? Say it is calendar year that is audited.

Answer

This situation would create additional work for the auditor. The audited statement would be part of the support they would use in their assessment but it will not be enough so additional information would be required. I would recommend trustees reach out to your accountant and auditor to see what else would be required.

Question 13

What if his super was past a condition of release?

Answer

If he met the condition of release then it is ok.

Question 14

When looking at unlisted valuations as a percentage of total assets held by the fund, what is considered material?

Answer

Depends on the materiality set by auditor. This is usually either 1 or 2% of net assets.

Question 15

If you have an unlisted asset in your superfund which is problematic for valuation and there is no real market for the asset, can you take the asset out of the superfund by selling it to yourself and how would you value it for this purpose?

Answer

As a related party, you need to ensure the transaction is at arm's length. You would need to demonstrate that you have gone through a fair and reasonable process to obtain a market value and it is supported with reliable documentation. In this instance, the trustee should reach out to the accountant and auditor for further assistance.

Question 16

I also wished to ask about whether a Part A qualification on valuation can also be a Part B qualification and what reaction can be expected from the tax office to a Part B qualification.

Answer

No different to any other qualification. The ATO expects an increase in qualifications around valuations.