

THE SUPER PLAYBOOK 2025

**SMSF ASSET VALUATION:
Getting the Evidence Right**

ASHLEY COURSE

Valuation of SMSF assets

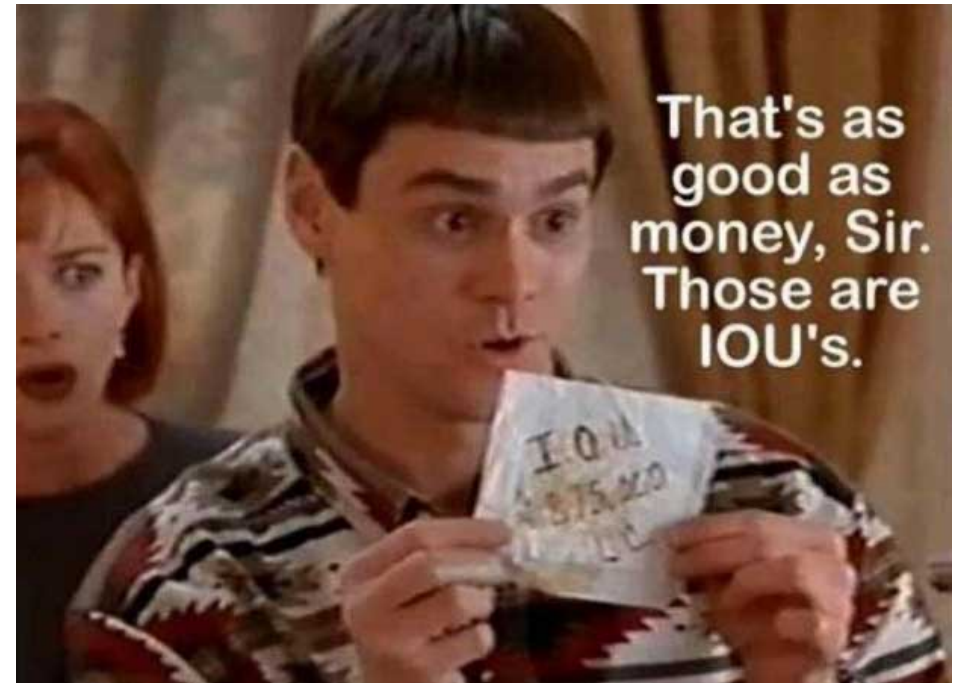
1. Sufficient appropriate audit evidence
2. Risks associated with market value
3. Assets for which sufficient appropriate evidence is unlikely to exist
4. Auditor's reporting requirements

Valuation of SMSF assets

McGoldrick v Cam & Bear

The court found that failure to tell Dr Bear the loans might not be recoverable caused Dr Bear to continue to make contributions to the SMSFs investment, which otherwise would not have been made.

Approximately \$850,000 liability for the auditor.



Valuation of SMSF assets



Ryan Wealth Holdings

Auditor failed to exercise reasonable care and skill, specifically in valuing the fund's investments.

The auditor did not ensure that the fund's investments were valued at net market value. The Court assessed damages in the sum of \$2,260,140.

Recoverability ... Recoverability ... Recoverability

Valuation of SMSF assets

Melissa Caddick

“Good result’ as \$3.5m Caddick auditor class action approved”

Highlights the level of risk when third parties / agents have authority to transact on behalf of the trustees.

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These ALL could have been avoided

By following the auditing standards. Audit opinions must be based on objective and supportable data.

When auditors are unable to obtain sufficient appropriate evidence, they have an obligation to modify their auditor's report (ASA 705.7).

Qualified Opinion or Disclaimer of Opinion depending on the pervasiveness.

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True or False

“It’s not my role as an auditor to protect the fund members ...”



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Audit engagement letter

“We will conduct our financial audit in accordance with Australian Auditing Standards and our compliance audit in accordance with applicable Standards on Assurance Engagements, ... obtain reasonable assurance whether the financial report is free from material misstatement and that you have complied, in all material respects, with the specified requirements of the SISA and SISR”

What is the legal implication of the above?

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Agency Theory and Assurance

Revolves around the relationship between a principal (the SMSF trustees / members) and an agent, e.g. a financial advisor, accountant or any other party delegated authority to act on behalf of the fund.

The SMSF auditor has a contractual obligation (the engagement letter) to provide assurance and ensure the members' interests are protected and that the information is reliable.

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Myth

The trustees / members should know what they're doing and take responsibility for any losses suffered (Not what the courts say)

The trustees sign a declaration acknowledging they're aware of their responsibilities in running the fund (Didn't help much in recent litigation cases)

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Watchdog not a Bloodhound

True, the auditor is a watchdog, not a bloodhound.

BUT is it asking too much to expect auditors to obtain the evidence and perform the procedures that would have helped the auditors avoid litigation in the most recent cases?

And when this evidence doesn't exist ... do what the auditing standards require.

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Intimidation threat to independence

Too many auditors scared to modify their opinion due to intimidation threats from the accountant, advisor and trustees.

If that's not the case ... why else are auditor's not following the auditing standards?

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Arguably the most important aspect of running an SMSF

The higher the risk of material misstatement and contravention of the SIS requirements, the more reliable and objective the evidence needs to be.

Assets must be shown at market value **Every Year** (13 years since SISR 8.02(B) auditors are still not getting this)

There is no such '3 year' rule and as far as I can remember, never has been.

ATO contacting auditors of funds whose asset values have remained unchanged

Valuation of SMSF assets

Arguably the most important aspect of running an SMSF

‘The asset’s value hasn’t changed materially from last year’

Without sufficient appropriate evidence **EVERY** year, how do you know the asset’s value hasn’t changed from last year?

Sufficient appropriate evidence must be obtained EVERY year.

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1. Sufficient appropriate audit evidence (Objective and Supportable)

The biggest talking point and source of non compliance by auditors for as long as I can remember. But what is ‘sufficient appropriate evidence’?

Based on the assessed risk of material misstatement (and non-compliance)

Far greater an issue than just Valuation and SISR 8.02B

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1. Sufficient appropriate audit evidence (Objective and Supportable)

Australian auditing standards – Hierarchy of audit evidence (in order of quality)

- Obtained directly by the auditor
- Obtained from an independent third party
- Externally sourced vs internally sourced
- Trustee representations

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1. Sufficient appropriate audit evidence (Objective and Supportable)

A function of risk

- Unethical / competency challenged accountant / advisor (Greatest Risk)
- Member(s) have a pension interest
- Materiality (Ryan Wealth)
- **Nature of fund assets (Ryan Wealth)**

Valuation of SMSF assets

1. Sufficient appropriate audit evidence (Objective and Supportable)

A function of risk

- Related party transactions
- Death and divorce
- Property values remain unchanged from prior year
- Rent return differs to expected

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1. Sufficient appropriate audit evidence (Objective and Supportable)

A function of risk

Delegation of authority to act on behalf of the SMSF to a third party and the SMSF trustees have not designed and implemented a suitable system of internal controls. **Resemble any case you know of?**

Common?

Valuation of SMSF assets

1. Sufficient appropriate audit evidence (Objective and Supportable)

“The more complex the investment, and the less financially literate the trustee, the greater the obligation on the auditor to ensure that the evidence obtained is both sufficient and reliable”.

(Ryan Wealth Holdings Pty Ltd v Baumgartner [2018] NSWSC 1502)

Valuation of SMSF assets

2. Risks associated with market value

The risks of material misstatement (the implications)

- Material misstatement in valuation and SISR 8.02B
- s.62 sole purpose
- s.65 lending or providing financial assistance
- ss. 83-85 In house assets

Valuation of SMSF assets

2. Risks associated with market value

The risks of material misstatement (the implications)

- s.109 non-arm's length
- s.1.06(9A) minimum pension and therefore taxation
- NALI
- Various balance caps

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3. Assets for which sufficient appropriate evidence will not exist

Why do accountants and auditors feel every asset can be supported with sufficient appropriate evidence?

Problem

Many accountants think the same rules apply to SMSFs as to Pty Ltds and family trusts ... **no they don't**. SMSF laws are significantly stricter.



Valuation of SMSF assets



3. Assets for which sufficient appropriate evidence will not exist

Bob the builder would like to borrow \$500,000 from a bank. Before lending, what evidence will the bank seek from the prospective borrower?

That's the evidence you should consider.
Most likely you will not be provided it'

Valuation of SMSF assets

3. Assets for which sufficient appropriate evidence will not exist

Very difficult / unlikely you will be able to obtain SAAE for the following:

- Private loans (you need evidence to confirm the recoverability)
- Private company investments
- Managed funds, WRAP and other custodian held assets
- Various other assets

Valuation of SMSF assets

4. Auditor's reporting requirements

ASA 705 – **MUST** modify in absence of sufficient appropriate evidence

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Report	
	Material but Not Pervasive	Material and Pervasive
The financial report is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Valuation of SMSF assets

4. Auditor's reporting requirements

“If after performing the audit procedures you conclude that the risk of a Regulation 8.02B contravention is low, but you are unable to obtain sufficient appropriate audit evidence in accordance with ASA 402, you may use your professional judgement to determine if an ACR is required”. (ATO ACR Guidelines)

For Custodial held assets, e.g. Managed Funds, WRAP asset etc.

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4. Auditor's reporting requirements

If ever bullied or intimidated in relation to a QAR / ACR, show them this:

The auditor is required to issue an ACR if ...

*“the person (the auditor) forms the opinion that it is likely that a contravention of any of the following **may** have occurred, **may** be occurring, or **may** occur...”*

(Section 129 SIS Act)

Valuation of SMSF assets

4. Auditor's reporting requirements

If ever bullied or intimidated in relation to a QAR / ACR, also show them this:

Section G: Other regulatory information (in the ATO's ACR instructions)

*“This section allows you to report **any other concerns**, in addition to the events and contraventions you have already reported about either the fund or the trustees where **you believe these will help us in performing our functions as the regulator of SMSFs**”*

Conclusion

There will **undoubtedly** be another **Ryan Wealth Holdings, Cam & Bear and Melissa Caddick**.

A question of when ... not ... if.

What evidence will you take to court to defend your contribution to the loss?





THANK YOU