

A certificate you can't do without

DIY super

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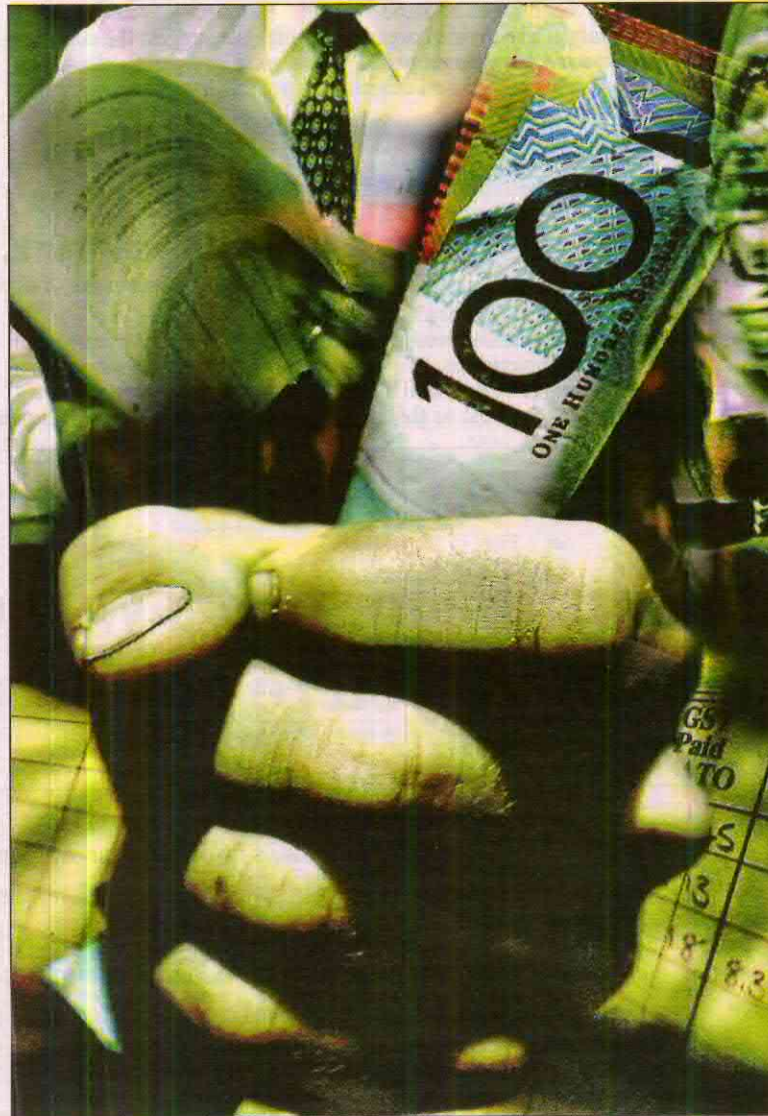
Whatever the reason, many people object to paying bank fees. This objection extends to do-it-yourself super fund trustees being asked to supply an annual bank confirmation certificate to the fund auditor.

While the cost may be only \$50 to \$70, many trustees don't understand why they have to pay this and see it as an unnecessary extra expense, says specialist DIY fund auditor Jo Heighway of SMSF Outsource Solutions.

Although they may appreciate that auditors are required to verify that assets shown in the fund's financial statements exist, when it comes to a fund's cash holdings they wonder why the auditor cannot just rely on the fund's bank statement. They particularly question the need for a certificate where a fund has more than one bank account, for instance if it has term deposits or any other fixed interest investments in other banks as a diversification strategy.

A fund may have multiple accounts with one bank. It can have more than one transaction bank account if the trustees have chosen to separate investment accounts that support pensions from accounts that support savings or accumulation. This separation, described as segregation, requires separate bank accounts.

Many trustees don't realise, says Heighway, that in addition to auditing the financial statements, auditors must also monitor compliance with super legislation according to certain formal auditing standards. One of these standards requires the auditor to gather sufficient evidence to form an audit opinion.



Bank confirmation certificates are used for audits. Photo-illustration: WARREN HACKSHALL

risk of misstatement or compliance failure is higher. The auditing standards, says Heighway, suggest that greater reliance can be obtained from evidence sourced from a third party, such as a bank, as opposed to that provided by the trustees. A bank

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In Heighway, SMSF Outsource

certificate is expected to detail all the accounts held by or opened and closed by the fund during the year, the name of the account owner or owners, the signatories to the accounts, any borrowings or security deposits and any debit balances noted during the year.

This level of information can provide an auditor with audit comfort that not only confirms information in the bank statements, but also confirms that all assets and liabilities that exist with the bank have been captured in the financial statements.

While the year-end bank reconciliation and bank statements supported by the bank certificate provide important evidence as to the existence of cash assets in the fund, a set of bank statements covering the full year is also required.

The statements are needed to allow the auditor to check that certain super rules have been complied with. For example, DIY super fund bank accounts should generally not go into overdraft.

Heighway says it is generally best that DIY funds don't have an overdraft facility attached to their bank accounts to avoid any risk of this being utilised.

While it is not illegal for a DIY fund bank account to have an overdraft facility, an auditor will often warn funds of the risks of this being accidentally utilised. There should be no need for a fund to have a bank account with an overdraft facility, adds Heighway.

This includes funds that have a bank account from which interest payments are taken under a formal borrowing arrangement. She has seen such DIY fund property borrowing accounts with an overdraft facility, which may seem clever if the fund doesn't have the money for the interest payment. However, if this facility is utilised

belonging to members as individuals are not deposited by mistake into the fund's bank account.

DIY super funds are not permitted to make loans to members or anyone related to a member and fund expenses should not be paid by outsiders, such as a member's business. This can be checked from bank statements.

What auditors will also check is that banks are aware of any changes to the trustees of funds.

Heighway says that if there are any problems, they should be rectified by the end of the financial year and not be reflected in the fund's financial statements.

Making sure that only trustees have access to DIY fund bank accounts is important from a control and potential fraud perspective.

Heighway says trustees objecting to paying bank confirmation fees and querying them is a common reason for an audit to be delayed.

Another reason is trustees not completing the confirmation request correctly, he says.

This can lead to extensive delays in completing audits because bank confirmation audit requests are still conducted by mail, a process that can be quite slow.

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FINANCIAL REVIEW

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