

2ND CSOS INDABA 2024



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 **BOLIVIA LODGE,
POLOKWANE, LIMPOPO**



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**Promoting Well Governed,
Empowered And Transformed
Community Schemes.**





Finance Breakaway Session takeaways :

- What should a good set of annual financial statements as required by the CSOS prescripts contain: saica body corporate template – illustrative financial statements?
- Opinions required of the auditor in terms of management rules 26(5)(c) of the sectional title management regulation 2016

A good set of annual financial statements as required by the CSOS prescripts contain: illustrative financial statements?

1.1 Annual Financial Statement

- ❑ SAICA recommends a standardised financial statement template for body corporates as per they illustrative
- ❑ It is important to note that the Management Rules Regulation does not prescribe any specific format for annual financial statements. This allows body corporates flexibility in preparing financial statements, as long as they meet statutory and financial requirements.
- ❑ There is currently no excel template of the financial statements template
- ❑ The recognition of long-term liabilities has been discouraged
- ❑ However, the recognition criteria for financial statements components has been outlined



A good set of annual financial statements as required by the CSOS prescripts contain: illustrative financial statements?

Annual Financial statements must adhere to IFRS (International Financial reporting standards)

A set of financial statements must contain the following:

1. Trustees Responsibility report
2. Independent Auditors/reviewer Report
3. Statement of Financial Position: This is the balance sheet
4. Statement of Comprehensive Income: This is a profit or Loss statement
5. Statement in changes in equity: Known as the statement of retained earnings
6. Statement of Cashflow: made up of operations, investing, and financing activities
7. Accounting Policy
8. Financial statement notes
9. Insurance schedule as per the property value of the unit
10. Schemes levy schedules

The illustrative SAICA financial statements can be found on the below link

<https://saicawebprstorage.blob.core.windows.net/uploads/resources/SAICA-Body-Corporate-Annual-Financial-Statements.pdf>

A good set of annual financial statements as required by the CSOS prescripts contain: illustrative financial statements?

1.2 Prescribed Management Rule (PMR) 26(1)(f)

- ❑ In terms of PMR 26(1)(f), body corporates must keep records of all the financial affairs of the scheme. This includes maintaining financial statements, ledgers, and accounting records for transparency and accountability purposes.

1.3 Insurance Policy under PMR 26(1)(c)(v)

- ❑ PMR 26(1)(c)(v) refers to the requirement for body corporates to maintain insurance on the property, including cover against risk of damage and liability for injury. This ensures that body corporates meet their obligations regarding property and liability insurance, safeguarding the assets and interests of homeowners within the scheme.
- ❑ The insurance schedule must be disclosed on the notes of annual financial statement



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GOVERNANCE

A good set of annual financial statements as required by the CSOS prescripts contain: illustrative financial statements?

1.4 Auditor's Role in Terms of Management Rule 26(5)(c) of the Sectional Title Schemes Management Regulations (2016)

- In terms of Management Rule 26(5)(c) of the Sectional Title Schemes Management Regulations (2016), the body corporate's auditor is required to express opinions on various aspects of the financial statements and the operations of the body corporate.
- The auditor's role is essential for ensuring compliance, transparency, and sound financial management within sectional title schemes.



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GOVERNANCE

A good set of annual financial statements as required by the CSOS prescripts contain: illustrative financial statements?

1.5 Specific Areas of Auditor Opinion and Reports

The opinions or reports required from auditors generally cover the following areas:

- Fair Presentation of Financial Statements: Ensuring the financial statements fairly reflect the financial position of the body corporate.
- Compliance with Legislation: Assessing whether the body corporate is compliant with relevant laws and regulations.
- Reserves and Maintenance Fund: Verifying the adequacy and accuracy of the reserve fund intended for maintenance and repairs.



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GOVERNANCE

A good set of annual financial statements as required by the CSOS prescripts contain: illustrative financial statements?

1.5 Specific Areas of Auditor Opinion and Reports (Continued)

- ✓ Fiduciary Duties of Trustees: Ensuring trustees have upheld their fiduciary responsibilities in managing the body corporate's finances.
- ✓ Irregularities or Mismanagement: Reporting any financial irregularities or signs of mismanagement.
- ✓ Additional Reporting Requirements: Highlighting any other required reports or legal obligations.



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GOVERNANCE

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GOVERNANCE

Opinions required of the auditor in terms of management rules 26(5)(c) of the sectional title management regulation 2016

1. Overview of SAICA, IRBA, and CSOS Collaboration

- ❑ **SAICA, IRBA, and CSOS** collaborated in 2017 to provide guidance on the role of auditors in relation to **Management Rule 26(5)(c)** of the **Sectional Titles Management Act (STMA) 2016**.
- ❑ This guidance is critical for ensuring auditors meet regulatory and financial reporting expectations for body corporates (BCs).

Opinions required of the auditor in terms of management rules 26(5)(c) of the sectional title management regulation 2016

2. Auditor Opinions Required in Terms of MR 26(5)(c)

2.1 Fair Presentation of Annual Financial Statements (AFS)

- ❑ The auditor must express an opinion on whether the AFS fairly present the financial position of the BC.
- ❑ Auditors ensure that the AFS are accurate and comply with the financial reporting standards chosen by the BC.

2.2 Compliance with Rules 21, 24, and 26

- ❑ The auditor reviews whether the BC complied with the financial record-keeping, presentation, and auditing standards set out in these rules.
- ❑ While the auditor reports on financial compliance, it is not compulsory to express opinion on compliance with broader governance issues.

2.3 Outcome of Financial Statements

- ❑ The auditor provides a report that states whether the financial statements are in line with applicable financial standards.



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Opinions required of the auditor in terms of management rules 26(5)(c) of the sectional title management regulation 2016

3. Additional Auditor Responsibilities

3.1 Reporting on Legal and Regulatory Requirements

- ❑ Auditors may include additional disclosures on non-compliance with other legal or regulatory requirements, when discovered during the audit, but will not express an opinion

3.2 Separate Assurance Engagements

- ❑ Auditors may conduct separate engagements to detect fraud or misconduct in the body corporate. Preconditions for such engagements must be met. Must be an additional request from the trustees of the body corporate.

3.3 Engagement with CSOS

- ❑ Any assurance-related issues or uncertainties can be addressed with the **Community Schemes Ombud Service (CSOS)** for further clarity.

4. Auditing Requirements for Body Corporates

- ❑ Auditing of body corporates is mandatory unless all sectional titles in a scheme are registered in the name of a single owner.



Opinions required of the auditor in terms of management rules 26(5)(c) of the sectional title management regulation 2016

Challenges Faced by Auditors

5.1 Misunderstanding of Auditor Functions

- ❑ Some body corporates and trustees may misunderstand the auditor's role, expecting them to be responsible for governance. The auditor's primary responsibility is to audit the financial statements, not governance.

5.2 Misunderstanding of Governance Responsibilities

- ❑ The governance of the BC rests with the **trustees**, not the **managing agent** or the auditor. Trustees are responsible for ensuring compliance with governance principles.



QUESTIONS AND RESPONSES (answers)

Questions

Audited Reports – SAICA or Other Auditors

Question: Are the audited reports for body corporates required to be done by auditors from SAICA, or can auditors from other bodies also conduct these audits?

Collaboration for Basic Bookkeeping Skills

Question: Is there any collaboration between **CSOS**, **SETA**, **EMA**, or **SAICA** to offer basic bookkeeping skills for non-accountants, especially in community schemes?

Responses

Audited Reports – SAICA or Other Auditors

Response: Initially, only auditors from SAICA and IRBA were permitted, but now auditors with accreditation from ACCA are also recognized to audit financial statements.

Collaboration for Basic Bookkeeping Skills

Response: Yes, there are collaborative efforts in place. Currently, CSOS has an MOU with UNISA to create a curriculum on CSOS responsibilities, financial reporting, and accountability, which is accredited by CSOS for non-accountants.

QUESTIONS AND RESPONSES (answers)

Questions

❑ Development of People of Colour in Accounting (Transformation)

Question: Are there any initiatives focused on developing people of colour within the accounting space to promote transformation?

❑ Lack of Resistance to Inadequate Disclosure in Financial Audits

Question: Why has there been no apparent resistance or pushback from auditors regarding schemes that fail to disclose financial information properly? Shouldn't auditors be ensuring proper auditing practices are in place?

Responses

❑ Development of People of Colour in Accounting (Transformation)

Response: Auditors are independent and must remain so. **IRBA** monitors and ensures compliance with auditor independence, but initiatives promoting transformation exist as part of broader industry changes.

❑ Lack of Resistance to Inadequate Disclosure in Financial Audits

Response:

Auditors are required to be independent. **IRBA** oversees compliance regarding auditor independence, which ensures that auditors maintain their objectivity and impartiality.

QUESTIONS AND RESPONSES (answers)

Questions

□ **Transparency of Bank Statements vs. Financial Statements**

Question:

Can homeowners in community schemes have access to bank statements to view the details of transactions, as opposed to just receiving the summarized information in the annual financial statements?

□ **Accountability of Security Neighbourhoods and Rural Areas at CSOS**

Question: Are security neighbourhoods and rural areas also covered by CSOS? If so, how can homeowners hold these schemes accountable through CSOS?

Responses

□ **Transparency of Bank Statements vs. Financial Statements**

Response:

Yes, bank statements should be made available to property owners to promote transparency and provide more detailed insights into transactions beyond the annual financial statements.

□ **Accountability of Security Neighbourhoods and Rural Areas at CSOS**

Response: Security neighbourhoods and rural areas are part of an emerging trend, but they are not fully covered under the current CSOS Act. The act will need to be amended to ensure that these new types of community setups are legislated to address the current gaps.



RESOLUTIONS TO TAKE FORWARD

1. Create and have one prescribed and possibly regulate the annual financial statement template
2. Encourage more participation of homeowners in community schemes through educational programs initiatives (accredited programs for non-accountants)
3. Enforce governance in the form of setting the timelines for appointments of Trustees and auditors e.g.) Encourage Rotation of trustees and auditors.
4. Managing agent and auditor's functions must be clear (issue directive)
5. Train managing agents on social housing and allow them to provide services in social housing

PRESENTER NAME



Thank you!
Questions ???

PRESENTER NAME

