

TO AUDIT, OR NOT TO AUDIT, THAT IS THE QUESTION



An auditor, an auditor, my complex for an auditor... okay enough butchering of Shakespeare.

The reality is that the world has a shortage of auditors and accountants. This is a subject that I have been discussing in various forums for over a year now. In South Africa, it is made worse by the fact that many auditors and accountants can work for foreign companies whilst staying in South Africa.

The problem has been made even worse with lower numbers of young people entering the profession. As a result, it has meant that fees have increased dramatically, with one large audit firm recently stating that their minimum audit fee for a body corporate is R65,000.

The various initiatives by the world, as well as local accounting and auditing institutes, to get young people and those who have left, back into the profession will also take years to bear any fruit.

Whilst auditing in community schemes generally is an important process, this article is directed specifically at bodies corporate. Owners' associations with a constitution, or a memorandum of incorporation, possibly have more flexibility and as such, will be dealt with in a separate article.

The requirement for an audit of a body corporate's finances is per the prescribed management rules, rule 26(5) of the STSMA to be specific. But management rules can be changed, and this is one such rule that can be changed in my view.

When the new Sectional Titles Schemes Management Act (STSMA) came into effect in 2016, it removed the option for small schemes to make use of an accounting officer. So, one of the first rules we looked to change for smaller schemes, was to allow for accounting officer reports. The initial attempts with the Community Scheme Ombuds Service (CSOS) failed, with the officials from CSOS stating that the scheme had to be audited and relied on an article presented by the South African Institute of Chartered Accountants.

We agree that removing the requirement for an audit, accounting officer, or some other form of assurance check would not be beneficial, and should not be allowed, but for smaller schemes, the accounting officer route is probably a better option.

A further problem with the shortage of auditors and accountants often means there are delays with getting the files ready for audit, or delays in getting the audit done, or both. So, the requirement to have a sectional scheme's financial records audited within four months of the financial year is often missed, which also leads to a compliance finding in the audit report.

A few months ago, Marina Conostas, a recognised and respected community schemes specialist attorney, wrote an article advising against accounting officer reports saying that the important assurance an audit brings cannot be done away with and left to unqualified bookkeepers. I called and discussed this statement with Marina and gave her my views on this and asked that she reconsider her comments based on my input, which is set out in this article.

Our view is that to be an accounting officer requires very specific qualifications and membership of approved accounting bodies. And so, schemes who elect to have an accounting officer report, provided they appoint a properly qualified professional, should be in good hands. Fees are generally a little lower, and with more qualified accounting officers available, there should be limited delays with reports being completed within the required four months.

Of course, the rule requiring the records to be audited, or to have an accounting officer's report within four months could also be amended, but relevant and timely financial information is what should be available to owners, so this would not be the best approach.

There is also another form of assurance that could be considered, and which was introduced by the new Companies Act for certain qualifying companies some years ago. The route of independent review, which we feel fits in very nicely with mid-size community schemes. Here too, very specific qualifications and membership of approved accounting institutes are necessary, but there are also more independent reviewers available. Auditors of course can also do independent review.

So, the body of available professionals is far bigger, and the assurances owners can get from properly prepared and vetted financial statements is more cost-effective, but most importantly, relevant and timely.

It must be remembered that an audit is not an absolute assurance that all is in order with a scheme's finances. Audits are done on a sample basis, and only if the sample shows inconsistencies or concerns are matters investigated more fully.

The only way to absolute assurance is by way of a forensic audit each year, which is very costly, and time-consuming, and which is why good management and trustees' oversight is very important on a daily and monthly basis, and not left to the annual audit.

We highlight this, so that owners can see that the lower assurances offered by an independent review, or accounting officer's report, are not much less than the risk of the audit not picking up any areas of concern.

Also, we need to remember that for many years, the audit of a body corporate was seen as a low-risk audit, category C. A is high-risk and B medium-risk, as set out by the Independent Regulatory Board of Auditors, IRBA. When the new STSMA and CSOSA were introduced in 2016, the audit of a body corporate went from a category C low-risk to a category A high-risk, seemingly only because of the introduction of the CSOS.

This adds processes and compliance that the auditor needs to carry out, and which really does not add that much more assurance to the users of the financial statements. This then adds to the costs and time needed for an audit. Given that in many cases auditors have clients who generate higher fees, and given the shortage of registered auditors, many audit firms do not undertake the audit of a body corporate.

A few months ago, there was some activity and commentary around the STSMA possibly being amended and one of the changes being mooted was the reintroduction of accounting officer reports for smaller schemes.

We also gave input to the National Association of Managing Agents, (NAMA) for them to also ask that the Sectional Titles Schemes Management Advisory Council also considers the independent review option for mid-sized schemes, or make it an elective that members can decide at each AGM, either to audit, or to have an independent review.

But there have been no further developments or any murmurs about the STSMA and the prescribed rules being amended. In the interim, it is our view that schemes should look to try and amend this rule, and that where new schemes are being developed, that those professionals who work on the management and conduct rules prior to registering the new scheme, edit these rules to give effect to independent review, or at least make it an elective to either audit or independently review at each AGM, by way of an ordinary owners' resolution.

A new approach is needed, especially in the short term, and the timely presentation of financial information, that owners can consider has to be a top priority.

18 February 2025

Clint Riddin

Professional Accountant (S.A)

After qualifying as a Professional Accountant in public practice, Clint spent 10 years in the property management industry where he was a director of a national property management firm. He is now the director of CRA, an accounting firm specialising in community schemes, which celebrated its 21st birthday in 2024. Clint also serves as a director and offers consulting to many other allies in the property management sector.