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Auditor Independence in terms of the New STSMA Regulations – the way forward

ARTICLE BY



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The new Sectional Title Schemes Management Act (STSMA) and the Regulations thereto brought about a number of changes that will have an effect on how the accounting and auditing of sectional title schemes will be conducted in the future. One of the changes regarding auditing (and more specifically auditor independence) that is causing the most confusion at the moment is contained in STSMA Regulation rule 26(5)(a), which reads as follows:

*“...the **audit** of a body corporate’s annual financial statements must be carried out by an **independent** auditor who has **not** participated in the **preparation of the annual financial statements** or **advised on any aspect of the accounts** of the body corporate during the period being reported on...”* (Own emphasis.)

In practice, the majority of audit practitioners currently involved in sectional title audits prepare the annual financial statements (which is an accounting function) for the body corporate, as well as carry out the audit of the body corporate’s annual financial statements. Some practitioners also complete tax returns, assist with budget preparation and provide business advice for their sectional title clients. Therefore, at first glance it seems that many bodies corporate and sectional title auditors will have to change their current practices to be in line with the auditor independence requirements of the new STSMA. However, the new rule in the STSMA Regulations regarding segregation of duties is not an entirely new concept.

In order to put this into context, it is important to understand that every profession is defined by the knowledge, skills and ethics of those in the profession. The accountancy and auditing professions are no exception. Internationally, the accountancy and auditing professions are governed by a number of statutory/regulatory and non-statutory/professional bodies. These bodies aim to serve the public interest by strengthening the accountancy and auditing professions and ensuring that certain standards are upheld by its members. One of the most prominent international governing bodies is the International Federation of Accountants (IFAC). In South Africa, the South African Institute of Chartered Accountants (SAICA) and the South African Institute of Professional Accountants (SAIPA) are the two best established professional bodies controlling accountancy professionals involved in public practice. Both SAICA and SAIPA are member bodies of the international organisation IFAC. Chartered Accountant [CA(SA)] and Professional Accountant (SA) are the professional designations awarded by SAICA and SAIPA respectively. In South Africa, The Independent

Regulatory Board for Auditors (IRBA) is the statutory body controlling the auditing profession. Registered Auditor [RA(SA)] is a designation awarded by the IRBA in terms of the Auditing Professions Act (APA) [Act 25 of 2006], [Note that an additional specialisation is required for CAs(SA) to register as RAs(SA). Thus all CAs(SA) are not automatically RAs(SA), but all RAs(SA) are also CAs(SA), since the latter is a prerequisite to qualify as a RA(SA).] In acting in the public interest, all accountancy and auditing professionals must observe and comply with the specific Code of Professional Conduct of their regulatory and/or professional body/bodies.

This brings us back to the concept of auditor independence in the new STSMA Regulations. Auditors of sectional title schemes should read this change in legislation in conjunction with sections 290.167 to 290.170 of the IRBA Code of Professional Conduct for Registered Auditors (IRBA Code). These sections deal specifically with auditor independence regarding the preparation of accounting records and financial statements. The IRBA Code stipulates that management (or in the case of sectional title, the body corporate) is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include functions such as preparing source documents and originating journal entries. It is explained that, should the auditor him-/herself assume responsibility for these activities, a so-called



"self-review threat" may arise. A self-review threat basically boils down to the auditor reviewing (auditing) the accounting records and/or financial statements that the auditor him-/herself compiled in his/her additional capacity as the accountant. The IRBA Code consequently prescribes that proper safeguards should be put in place to mitigate such a self-review threat.

Without going into too much detail, there are a number of possible safeguards that an auditor can put in place to address these potential self-review threats. Firstly, it should be made perfectly clear to management (in this case, the body corporate or the managing agent) that they are responsible for the bookkeeping functions of the sectional title, such as generating source documents, preparing source data, approving transactions and preparing journal entries, to name but a few. Bodies corporate should refer to STSMA Regulation rule 26(1)(a) which states specifically that the body corporate is responsible for keeping proper books of account. Secondly, the members of the audit team should be made aware and reminded of the fact that they may not provide

advisory services or make any management decisions relating to the body corporate. Thirdly, if the body corporate's audit firm assists with accounting services, it can be arranged for the accounting services to be performed by an individual who is not a member of the specific audit team. If such services are performed by a member of the audit team, a partner or senior staff member with appropriate expertise, who is not a member of the audit team, should review the work performed. Further, tax return preparation services are generally based on historical information and tax returns are subject to whatever review or approval process the tax authority deems appropriate. Accordingly, providing such services generally does not create a threat to auditor independence if management (in this case, the body corporate) takes responsibility for the returns including any significant judgements made.

In section 290.269 of the IRBA Code, it is further recognised that the audit process often involves dialogue between the audit firm and the

management of the audit client. This may include advice by the auditor on the proper application of accounting standards and financial statement disclosure requirements, discussions on the appropriateness of internal controls and the methods used in determining the values of assets and liabilities, or proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, generally, create threats to auditor independence.

In conclusion, at first glance STSMA Regulation rule 26(5)(a) may seem to bring about great changes relating to how body corporate audits should be performed. However, the concept of auditor independence has been ingrained in the Code of Professional Conduct of the auditing profession for many years already. As long as auditing practitioners have the necessary safeguarding measures in place, this change in the wording of the legislation will probably not have a profound effect on the current accounting and auditing practices in the sectional title industry. 🏡

NAMA EVENTS DIARY

Gauteng West Region

24 February 2017 - 120 Breakfast Seminar

Topic : Meetings, Quorums etc. / Voting Cards / Reserve Fund & Maintenance Plan

10 March 2017 - Sectional Title Seminar @ Potchefstroom.

Topic : The New STSMA & CSOS Acts

25 March 2017 - Sectional Title Seminar

Topic : The New STSMA & CSOS Acts

Email namawest@nama.org.za for more information

Free State Region

17 February 2017 - Regional AGM

18 February 2017 - Sectional Title Seminar

Topic : The New STSMA & CSOS Acts, Regulations and Rules

Email namawest@nama.org.za for more information

KwaZulu-Natal Region

22 February 2017 – Breakfast Seminar and AGM @ – The Palace Hotel

25 February 2017 – Sectional Title Training @ – Maritzburg Golf Club

25 March 2017 – Sectional Title Training

Email namakzn@nama.org.za for more information

Gauteng North Region

18 February 2017 - Sectional Title Training Seminar

Topic : The New STSMA & CSOS Acts updated in the NAMA Manual

Presenter : Dave James

Email namanorth@nama.org.za for more information

Western Cape Region

10 February 2017 - AGM/120 Breakfast Seminar @ Bon Amis at Bloemendal

Email namawc@nama.org.za for more information

Gauteng East Region

28 February 2017 - Regional AGM

Email namaeast@nama.org.za for more information

Eastern Cape and Border Regions

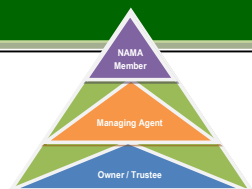
22 February 2017 - Regional Meeting @ Reynard Agencies Offices

Email cparris@bellbuoy.co.za for more information

FOR MORE INFORMATION, Contact: indaba2017@nama.org.za

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