



NATIONAL ASSOCIATION  
OF MANAGING AGENTS  
SHAPING OUR PROFESSION

# Dr Leandi Steenkamp

HOD ACCOUNTING & AUDITING  
- CENTRAL UNIVERSITY OF TECHNOLOGY, FREESTATE



NAMA 2019 National Conference



NATIONAL ASSOCIATION  
OF MANAGING AGENTS  
SHAPING OUR PROFESSION

# FINANCIAL REPORTING AND AUDITING

Léandi Steenkamp (Central University of Technology, Free State)

&

Carla Coetzee (University of Pretoria)



NAMA 2019 National Conference

# INTRODUCTION

- Researcher & students - observations
- Changes (!)
- Highly (overly) regulated
- ST only
  - Home-owners associations **X**
  - Share-block schemes **X**
  - Time-share schemes **X**
- Old vs new legislation



# CONTENT

- Compliance matters (NPC CIPC GAAP)
- Contents of the financial statements
- The audit process
- Audit reports
- Sources
  - ST legislation
  - SAICA communication (2018)
  - IRBA communication (2017)

# HISTORY

- The spies of King Darius of Persia (552 to 486 BC)
- The king's ears ("*audire*")
- Before 1500's → two scribes (government)
- 1494 → Luca Pacioli – double entry system
- Industrial revolution
- Agency theory
- Britain (1844 – FS) (1900 – audit)

# AUDITING



What my friends think I do



What my mom thinks I do



What society thinks I do



What the partners think I do



What I think I do



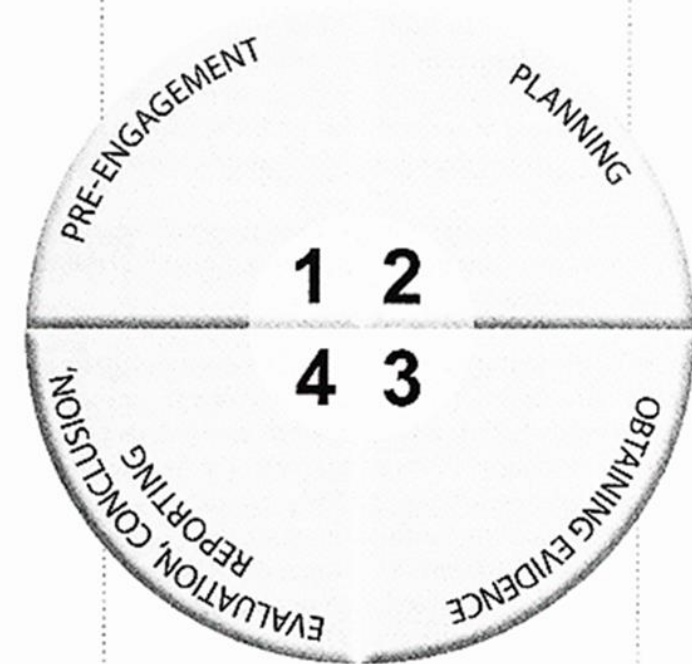
What I actually do





- Client investigation (new and existing)
- Determine skills and competence requirements
- Determine engagement terms

- Obtain an updated knowledge of business
- Consider audit risk
- Obtain an understanding of the accounting and internal control systems
- Determine materiality
- Formulate an audit strategy and audit plan
- Coordination and control
- Consider other matters that may affect audit procedures



- General review of financial information and evaluation of audit evidence
- Conclusion and formulation of audit opinion
- Reporting

- Tests of controls (combined audit approach)
- Evaluate results of tests of controls and adapt planned substantive procedures
- Substantive procedures
- Evaluate results of substantive procedures and perform further substantive procedures

# FINANCIAL STATEMENTS

- Rule 26(1) STSMA Regulations
- A **body corporate MUST**
  - Proper books of account...
  - Separate books of account & bank accounts for admin & reserve funds...
  - Prepare AFS for presentation at the AGM...
  - MRR plan
  - Budgets
  - Report adopted by trustees, reviewing BC affairs during FY



# FINANCIAL STATEMENTS

- PMR 26(1)(c)
- BC must prepare **AFS** for presentation at the AGM
- The FS should include an **analysis** of...
  - Debtors
  - Creditors
  - Advances received
  - Reserve funds
  - Insurance
  - CSOS dues



# FINANCIAL STATEMENTS

- PMR 26(5)(b)
- Chief Ombud Circular (1 of 2017)
- **CONFUSION !**
- The audit of BC's AFS need NOT be carried out in accordance with any recognised framework or guidelines for financial accounting



# FINANCIAL STATEMENTS

- SAICA Communication
- Prepare FS – two options
  - Recognised financial reporting standards
  - Basis of accounting as determined by BC (entity-specific basis of acc) (ESB)

# FINANCIAL STATEMENTS

- Recognised financial reporting standards
- Two:
  - IFRS (IASB) [>2859 pages]
  - IFRS for SMEs [ $\pm$  250 pages]
- What about GAAP?



# FINANCIAL STATEMENTS

## JOINT ANNOUNCEMENT BY THE ACCOUNTING PRACTICES BOARD (APB) AND THE FINANCIAL REPORTING STANDARDS COUNCIL (FRSC) REGARDING SA GAAP

The Companies Act, 2008 (“the Companies Act”), has brought about changes to the standard-setting process that has required the continued existence of South African Statements of Generally Accepted Accounting Practice (“SA GAAP”) to be re-evaluated.

### SA GAAP

The Accounting Practices Board (“APB”) was formed in 1973 to consider what should be generally accepted accounting practice and issue SA GAAP. In 2003, the APB decided to harmonise SA GAAP with International Financial Reporting Standards (“IFRS”). Since then, after due process, the APB has issued the IFRS standards as SA GAAP without amendment. The Companies Regulations, 2011 (“the Regulations”), prescribe the reporting frameworks based on each individual company’s public interest score. The Regulations permit the use of either IFRS, IFRS for SMEs or SA GAAP in specific instances. However, in order to reduce the burden of issuing each IFRS standard as SA GAAP, it has been decided to withdraw SA GAAP. Accordingly, SA GAAP will no longer apply in respect of financial years commencing on or after 1 December 2012.

### The Impact on entities other than companies

Other entities that are required to apply SA GAAP in terms of their governing legislation should also follow the process of conversion set out above.

### Summary

The consequences of the aforementioned will be as follows:

- 1 SA GAAP will be withdrawn and will cease to apply in respect of financial years commencing on or after 1 December 2012;
- 2 Companies with a public interest score below 350 and other entities that are currently applying SA GAAP need to prepare for conversion to IFRS or IFRS for SMEs;
- 3 The commencement of APB's voluntary winding-up; and
- 4 Close co-operation between the APB and the FRSC to ensure a smooth handover of the standard setting function and related matters from the APB to the FRSC, before the winding-up process of APB is completed.

### Accounting Practices Board

M Kgosana  
Chairman

### Financial Reporting Standards Council

J van Rooyen  
Chairman

# FINANCIAL STATEMENTS

- Exact replica...

## Statements of GAAP reference numbers

*Statements of Generally Accepted Accounting Practices (SA GAAP) will be withdrawn and will cease to apply in respect of financial years commencing on or after 1 December 2012*

## Statements of Generally Accepted Accounting Practice

	Preface to International Financial Reporting Standards
IFRS 1(AC 138)	First-time adoption of International Financial Reporting Standards
IFRS 2(AC 139)	Share-based payment
IFRS 3(AC 140)	Business combinations
IFRS 4(AC 141)	Insurance contracts
IFRS 5(AC 142)	Non-current assets held for sale and discontinued operations

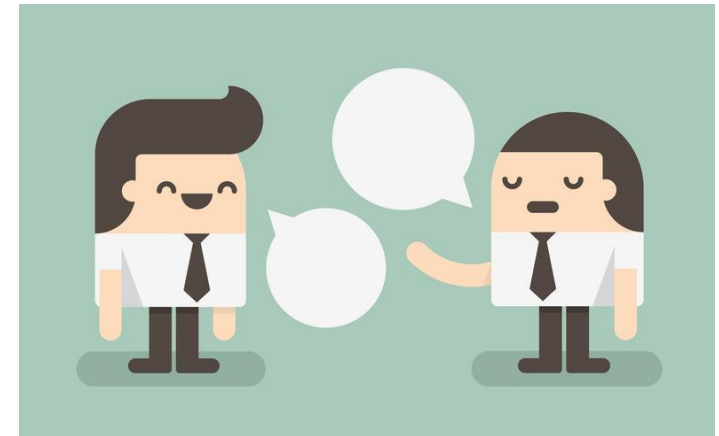


# FINANCIAL STATEMENTS

- PMR 26(5)(b) - prepare FS – 2 options
  - Recognised financial reporting standards
    - IFRS
    - IFRS for SMEs ✓
  - Basis of accounting as determined by BC (entity-specific basis of acc)

# FINANCIAL STATEMENTS

- SAICA joint survey (2014)
  - National Small and Medium Practices Committee (NSMP)
  - Accounting Practices Committee (APC)
- What is ESB?
  - Fair value model vs. historical cost model
  - Residual values
  - Useful life
  - Depreciation
  - Cash flow statements / SCE / Statement of other comprehensive income



# FINANCIAL STATEMENTS

- Can you do what you want?
- Remember → Audited FSs [PMR 26(4)]
- South African Auditing Practice Statement (SAAPS) 2
  - Financial Reporting Frameworks and the Auditor's Report
- International Standard on Auditing (ISA) 800 (Revised)
  - Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

# FINANCIAL STATEMENTS

- SAAPS 2

## The Purpose of an Audit of Financial Statements

10. The purpose of an audit is to **enhance** the intended users' degree of **confidence** in the financial statements. This is achieved by the expression of an **opinion** by the auditor on whether the **financial statements** are prepared, in all **material** respects, in accordance with an **applicable financial reporting framework**.<sup>12</sup> Accordingly, an audit meets the description of an assurance engagement as contained in the *International Framework for Assurance Engagements (the Framework)*.<sup>13</sup>

# FINANCIAL STATEMENTS

- SAAPS 2 - guidance for auditors
  - Nature of entity (legislation)
  - Intended users
    - Members, banks, CSOS, investors, etc.
  - Suitability criteria
    - Relevant (nature of entity)
    - Complete (no omissions)
    - Reliable (substance over form, consistency)
    - Neutral (no bias)
    - Understandable



# FINANCIAL STATEMENTS

## • Professional judgement (SAAPS 2)

24. The following are examples of special purpose frameworks:

- Where management does not have a choice in the application of the framework:
  - The Regulatory Reporting Requirements for Retirement Funds in South Africa, approved by the Financial Services Board, is an example of a special purpose framework established by a regulator to meet the requirements of that regulator.
- Where management has a choice in the application of the framework:
  - A basis of accounting, applied by an entity, which comprises a set of criteria used in preparing financial statements and that applies to all material items and has been designed specifically for the intended users of the financial statements of the entity.

32. The **financial reporting framework** applied by an entity such as a school, club, religious institution, farming operation, trust, partnership and **body corporate** in the preparation of its financial statements may be a **requirement of law** or regulation, an agreement or a stipulation in that entity's founding document, for example, a trust deed. The specified basis of accounting may be a fair presentation framework or a compliance framework.

33. Management or those charged with governance may decide to **include new or enhanced disclosures** in the financial statements or elsewhere in the annual report relating to a key audit matter, in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.<sup>38</sup> A decision by an entity to provide such additional disclosures has no bearing on the description and application of the chosen financial reporting framework. However the auditor considers whether the financial statements, with the additional disclosures, still achieve fair presentation in the case of a fair presentation framework or **do not result** in the financial statements being **misleading** in the case of a compliance framework.



# FINANCIAL STATEMENTS

- Professional judgement

39. Legislation, regulatory requirements and legal agreements often refer to “generally accepted accounting practice”, “generally recognised accounting practice” and “financial reporting standards”. These terms are used to describe financial reporting frameworks in general terms and are therefore not identified as general purpose financial reporting frameworks in accordance with the ISAs.

# FINANCIAL STATEMENTS

- SAAPS 2
- Additional guidance for auditors
  - ISA 700 (Revised)
  - ISA 800 (Revised)



# FINANCIAL STATEMENTS

- ISA 800 (Revised), par 14, A20 and A21

*Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework*

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. ~~The auditor shall include this paragraph under an appropriate heading.~~ (Ref: Para. A1420–A1521)

\*\*\*

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements for the year ended **30 JUNE 2017** are prepared, in all material respects, **in accordance with the basis of accounting as disclosed in note 1 to the financial statements** and the requirements of the Sectional Titles Schemes Management Act, 2011, the Sectional Titles Schemes Management Regulations, 2016 and the Management Rules of the body corporate established in terms thereof.

#### ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

##### 1.1 Presentation of Annual Financial Statements

The annual financial statements have been prepared on the **historical cost basis** and in accordance with **entity specifics** applicable to bodies corporate established in terms of the **Sectional Titles Act, 8 of 2011** in South Africa and in the manner required by the rules of the body corporate and incorporate the following principal accounting policies.

##### 1.2 **Income Tax**

Current tax is recognised as income or an expense and included in the surplus or deficit for the period. The Body Corporate is taxed in terms of Section 10(1)(e) of the Income Tax Act.

##### 1.3 **Trade and other receivables**

Trade debtors represent unpaid levies from owners. Managing agents can close on different dates which causes differences in levies that are in arrear.

##### 1.4 **Trade payables**

## To the members of SUNGLADES BODY CORPORATE

### Report on the Audit of the Annual Financial Statements

#### Opinion

We have audited the Annual Financial Statements of SUNGLADES BODY CORPORATE set out on pages 9 to 17, which comprise the Statement of Financial Position as at 31 January 2017, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the Annual Financial Statements, including a summary of significant accounting policies.

In our opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of SUNGLADES BODY CORPORATE as at 31 January 2017, and its financial performance and cash flows for the year then ended in accordance with **International Financial Reporting Standard for Small and Medium-sized Entities** and the requirements of the **Sectional Titles Schemes Management Act, 2011**, the **Sectional Titles Schemes Management Regulations, 2016** and the **Management Regulations** of the body corporate.

# FINANCIAL STATEMENTS

- Most often:
  - IFRS for SMEs
  - As determined by BC





# FINANCIAL STATEMENT

- What must be in there?

- IFRS for SMEs

- SFP (Balance Sheet) 😊
- SCI (Income Statement) 😊
- SCE (Equity) 😞
- SCF (Cash flow) 😞
- Notes 😊

- PLUS

3.22

An entity **may use titles** for the financial statements **other** than those used in this Standard as long as they are **not misleading**.

25

© IFRS Foundation

# FINANCIAL STATEMENTS

- The FS should include an analysis of...
  - Debtors
  - Creditors
  - Advances received
  - Reserve funds
  - Insurance
  - CSOS dues
- Where?
- Notes / Supplementary information / Annexures



# DEBTORS

- STSMA Rule 26(1)(c)(i)
- “...amounts due to the body corporate in respect of contributions, special contributions and other charges, classified by member and the periods for which such amounts were owed...”
- Level of detail?

# DEBTORS

The Body Corporate of Jazz  
Financial Statements for the year ended 28 February 201X  
Notes to the Financial Statements

#X	Trade and other receivables	201X	201Y
	Levies receivable:	10,460.00	6,970.00
	3 - Miles Davis	1,350.00	570.00
	7 - John Coltrane	3,500.00	2,800.00
	10 - Nina Simone	2,600.00	3,170.00
	12 - Louis Armstrong	120.00	-
	17 - Ella Fitzgerald	1,790.00	-
	24 - Billie Holiday	1,100.00	430.00
		<u>10,460.00</u>	<u>6,970.00</u>

The Body Corporate of Jazz  
Supplementary Information

#X Debtors age analysis on 28 February 201X

Levies receivable

	Total	Current to 28/02/201X	30 Days to 31/01/201X	60 Days to 31/12/201X	90 Days to 30/11/201X
3 - Miles Davis	1,350.00	750.00	600.00	-	-
7 - John Coltrane	3,500.00	680.00	680.00	680.00	1,460.00
10 - Nina Simone	2,600.00	870.00	600.00	590.00	540.00
12 - Louis Armstrong	120.00	120.00	-	-	-
17 - Ella Fitzgerald	1,790.00	-	-	-	1,790.00
24 - Billie Holiday	1,100.00	550.00	550.00	-	-
	<u>10,460.00</u>	<u>2,970.00</u>	<u>2,430.00</u>	<u>1,270.00</u>	<u>3,790.00</u>

# DEBTORS

- Paddocks (Durham)
- “...all the members of the body corporate are entitled to information regarding any owner who is in arrears with their levies...”
- “...the very nature of communal living requires that the inhabitants have reasonable access to each other’s contact details to exercise their rights...”
- “...POPI cannot be used as an excuse not to give this personal information, as the Sectional Titles Act provides legitimation to the fact that owners are entitled to this information...”

# CREDITORS

- STSMA Rule 26(1)(c)(ii)
- *“...amounts due by the body corporate to its creditors generally and prominently disclosing amounts due to any public authority, local municipality or other entity for services including, without limitation, water, electricity, gas, sewerage and refuse removal, classified **by creditor** and the **periods** for which such amounts were owed...”*
- Level of detail?



# CREDITORS

**The Body Corporate of Jazz**  
**Financial Statements for the year ended 28 February 201X**  
**Notes to the Financial Statements**

#X	Trade and other payables	201X	201Y
	New Orleans Local Municipality	35,897.00	32,965.00
	Basie Garden Services	3,914.00	2,854.00
	Ellington Window Repairs	1,578.00	-
	Gillespie Security and Fencing	-	13,942.00
	Levies payable:	2,609.00	130.00
	1- Oscar Peterson	5.00	-
	18 - Art Blakey	2,150.00	-
	19 - Horace Silver	12.00	-
	23 - Sarah Vaughn	-	130.00
	26 - Sun Ra	442.00	-
		<u>43,998.00</u>	<u>49,891.00</u>

**The Body Corporate of Jazz**  
**Supplementary Information**

**#X Creditors age analysis on 28 February 201X**

	Total	Current to 28/02/201X	30 Days to 31/01/201X	60 Days to 31/12/201X	90 Days to 30/11/201X
New Orleans Local Municipality	35,897.00	35,897.00	-	-	-
Basie Garden Services	3,914.00	2,019.00	1,895.00	-	-
Ellington Window Repairs	1,578.00	-	-	-	1,578.00
Levies payable:	2,609.00	1,957.00	652.00	-	-
1- Oscar Peterson	5.00	5.00	-	-	-
18 - Art Blakey	2,150.00	1,500.00	650.00	-	-
19 - Horace Silver	12.00	12.00	-	-	-
26 - Sun Ra	442.00	440.00	2.00	-	-
	<u>43,998.00</u>	<u>39,873.00</u>	<u>2,547.00</u>	<u>-</u>	<u>1,578.00</u>

# ADVANCES AND LIABILITIES

- STSMA Rule 26(1)(c)(iii)
- “...amounts advanced to the body corporate by way of levy finance, a loan, in terms of a guarantee insurance policy or otherwise, setting out the actual or contingent liability of the body corporate and the amounts paid by the body corporate and by any member in terms of such arrangement...”

# RESERVE FUND

- STSMA Rule 26(1)(c)(iv)
- “...amounts in the reserve fund showing the amount available for maintenance, repair and replacement of each major capital item as a percentage of the accrued estimated cost and the rand value of any shortfall...”

# INSURANCE

- STSMA Rule 26(c)(v)
- “...premiums and other amounts paid and payments received by the body corporate and any member in terms of the insurance policies of the body corporate and the expiry date of each policy...”

# INSURANCE

**The Body Corporate of Jazz**  
**Statement of profit or loss and other comprehensive income**  
**for the year ended 28 February 201X**

	Note	201X	201Y
<b>Income</b>			
Xxx		xxx	xxx
Insurance claims received	#Y	24,200.00	-
Xxx		<u>xxx</u>	<u>xxx</u>
		xxx	xxx
<b>Expenses</b>			
Xxx		xxx	xxx
Insurance	#X	138,761.00	123,347.00
Insurance claims	#Y	25,620.00	-
Xxx		<u>xxx</u>	<u>xxx</u>

**The Body Corporate of Jazz**  
**Financial Statements for the year ended 28 February 201X**  
**Notes to the Financial Statements**

#X Insurance	201X	201Y
Premiums paid	142,000.00	126,000.00
Recovered directly from residents	<u>(3,239.00)</u>	<u>(2,653.00)</u>
	<u>138,761.00</u>	<u>123,347.00</u>

The cover period of the insurance policy expires on 28 February 201W

#Y Insurance claims	201X	201Y
Insurance claims received	26,700.00	-
Insurance claims (excess payments)	(2,500.00)	-
Insurance claims paid	<u>(25,620.00)</u>	<u>-</u>
	<u>(1,420.00)</u>	<u>-</u>

# CSOS

- STSMA Rule 26(c)(vi)
- “...amounts due and payable to the Community Schemes Ombud Service...”



# ADDITIONAL INFORMATION – AUDIT OPINION

- ISA700
- Is it all audited?
- **Opinion**

We have audited the Annual Financial Statements of Sunset Lodge Body Corporate set out on pages 4 to 10, which comprise the Statement of Financial Position as at 31 August 2017, and the Statement of Income and Accumulated Surplus and Statement of Cash Flows for the year then ended, and notes to the Annual Financial Statements, including a summary of significant accounting policies.

In our opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of Sunset Lodge Body Corporate as at 31 August 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Sectional Titles Act, 1986 (Act No. 95 of 1986).

# ADDITIONAL INFORMATION – AUDIT OPINION

Our opinion on the Annual Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Annual Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work We have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# AUDIT OPINIONS



# AUDIT OPINIONS

- Rule 26(5)(c)
- “...the **audit** of a body corporate’s annual financial statements must include **opinions** as to whether or not
- (i) the annual **financial statements accurately reflect** the **financial position** of the body corporate for the financial year under review, with such **qualifications and reservations** as the auditor considers necessary;
- (ii) the body corporate has **complied with the accounting requirements** set out in **rules 21, 24 and this rule 26**, with a specific **description of any failure** to comply with such requirements;
- (iii) the **books of account** of the body corporate have been **kept** and its **funds** have been **managed** so as to provide a **reasonable level of protection against theft or fraud**; and
- (iv) the **financial affairs** of the body corporate appear to be **effectively managed...**”

# SAICA COMMUNICATION on PMR 26(5)(c)

## (i) Accurate reflection

- The auditor **cannot** provide **absolute assurance** that the financial statements are free from material misstatements due to fraud and error.
- An audit can only provide **reasonable assurance** on the financial statements.



# SAICA COMMUNICATION on PMR 26(5)(c)

## (ii) Rules

However, the intention of Rule 26(5), overall, within the context of requiring an audit of the financial statements of a body corporate was not to impose more onerous requirements on a body corporate beyond the audit of the financial statements. Therefore, the additional “opinions” that are sought are referred to within the context of an audit of financial statements, with some additional reporting responsibilities. It has been agreed that the information needs as contemplated by the Regulations would be satisfied if the registered auditor reports, in the auditor’s report on the financial statement, any instances of non-compliance with the identified requirements that come to the registered auditor’s attention during the course of the audit of the financial statements.



# SAICA COMMUNICATION on PMR 26(5)(c)

## Disclosure examples on (ii)

*Illustrative wording*

### **Report on other legal and regulatory requirements**

In accordance with the Management Rules of the body corporate as adopted in terms of Regulation 6 of the Sectional Titles Schemes Management Regulations, 2016, Rules 26(5)(c)(ii), (iii) and (iv), we report as follows:

# SAICA COMMUNICATION on PMR 26(5)(c)

## Disclosure examples on (ii) (continued)

*Compliance findings with accounting requirements (Rule 26(5)(c)(ii))*

The trustees are responsible to ensure that the body corporate complies with management rules 21, 24 and 26 adopted in terms of the Sectional Titles Schemes Management Regulations, 2016, including the implementation of systems, processes and internal control the trustees determine are necessary in the circumstances.

If during the course of our audit of the financial statements of the body corporate we become aware of any instances of non-compliance with the accounting requirements set out in management rules 21, 24 and 26, we are required to report our findings. We have nothing to report in this regard.<sup>6</sup>

# SAICA COMMUNICATION on PMR 26(5)(c)

## Disclosure examples on (ii) (continued)

[OR]

If during the course of our audit of the financial statements of the body corporate we become aware of any instances of non-compliance with the accounting requirements set out in management rules 21, 24 and 26 (the Rules), we are required to report our findings. We identified the following instances of non-compliance with the Rules<sup>7</sup>:

- [Describe the instance of non-compliance and the circumstances of its occurrence]
- [Describe the instance of non-compliance and the circumstances of its occurrence]
- [Describe the instance of non-compliance and the circumstances of its occurrence]

# SAICA COMMUNICATION on PMR 26(5)(c)

## (iii) Theft and fraud

- The auditor **cannot** provide **absolute assurance** that the financial statements are free from material misstatements due to **fraud and error**.
- An audit can only provide **reasonable assurance** on the financial statements.
- Only identify and **assess the risk** of material misstatement of the financial statements.

# SAICA COMMUNICATION on PMR 26(5)(c)

## (iii) Theft and fraud

### Disclosure examples on (iii)

*Management of the body corporate's financial affairs and funds (Rules 26(5)(c)(iii) and (iv))*

In terms of relevant International Standards applicable to audit, review and other assurance engagements we were unable to conduct an engagement relating to whether the books of account of the body corporate have been kept and its funds have been managed so as to provide a reasonable level of protection against theft or fraud, and whether the financial affairs of the body corporate appear to be effectively managed, as required by Rules 26(5)(c)(iii) and (iv). We have not performed any audit, review or other assurance engagement in relation to these matters and accordingly we do not express any assurance opinion or conclusion thereon.

# INDEPENDENCE

- Can the auditor compile the financial statements and perform the audit of the AFS?
- No!
- Same firm?
- Yes!
- If different divisions/partners





# IRBA – HIGH RISK AUDITS

- Moved BC audits to Category A
- *“High risk audits and related assurance work”*
- Other legislation involved (IRBA Financial Manager)
- Firms selected for inspection
- Government Gazettes 42258 and 42511
- Billed twice a year
- % of total audit and other assurance work invoiced

Accordingly, fees payable from 1 April 2019 to 31 March 2020 are prescribed herewith on the basis detailed below.

1. For all firms categorised as assurance, assurance fees are billed twice a year based on a percentage of the total audit and other assurance work invoiced by the firm and declared every calendar year by the firm for each registered auditor.
2. The percentages approved by the Regulatory Board and applicable for 2019/2020 are as follows:

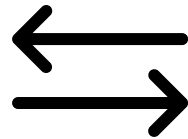
Assurance fee declared (R)	Percentage
> 702 250 000	0.331%
> 140 450 000	0.501%
> 126 405 000	0.511%
> 112 360 000	0.521%
> 98 315 000	0.531%
> 84 270 000	0.571%
> 70 225 000	0.591%
> 56 180 000	0.651%
> 42 135 000	0.751%
> 28 090 000	0.851%
> 21 067 500	1.046%
> 60 400	1.331%
≤ 60 400	0.000%

The average rate for this year is 0.55% (2018: 0.55%).



# AUDIT FIRM/PARTNER ROTATION

- No audit partner rotation requirements in the STSMA
- Code of Professional Conduct (PART 4A - Sec 540, 600, 601)
- Long Association of Senior Personnel of an Audit Client (partner rotation)



# TO AUDIT OR NOT TO AUDIT?

- Less than 10 vs. more than 1
- Applies to all BCs (not just newly registered)
- Changing of rules by unanimous resolution (>30% units sold)
- Intention of the legislator
- CSOS rejected





Central University of  
Technology, Free State



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA



NATIONAL ASSOCIATION  
OF MANAGING AGENTS  
SHAPING OUR PROFESSION

#### UNANIMOUS RESOLUTION TO AMEND MANAGEMENT RULE 26(4) AND 26(5)

*Resolved by round-robin unanimous Resolution passed by all members within the Republic at the time of passing  
this Resolution on 2017*

THAT:

The Prescribed Management Rule (PMR) 26(4) and (5) be amended to allow for the appointment of an Accounting Officer instead of an Auditor.

**The current Rules state:**

PMR 26(4) Unless all the sections in the scheme are registered in the name of one person, the body corporate must present audited financial statements to a general meeting for consideration within four months after the end of the financial year.

PMR 26(5) The audit of a body corporate's annual financial statements—

(a) 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;

(c) must include opinions as to whether or not—

(i) the annual financial statements accurately reflect the financial position of the body corporate for the financial year under review, with such qualifications and reservations as the Auditor considers necessary;

**To be substituted and amended by:**

PMR 26(4) The body corporate must present annual financial statements with an accompanying Accounting Officer's report to a general meeting for consideration within four months after the end of the financial year.

PMR 26(5) The body corporate's annual financial statements and Accounting Officer's report –

(a) must be carried out by a suitably qualified Accounting Officer;

(c) must include a report as to whether or not—

(i) the annual financial statements accurately reflect the financial position of the body corporate for the financial year under review, with such qualifications and reservations as the Accounting Officer considers necessary;



NAMA 2019 National Conference

# THE PROCESS OF “APPROVAL”

- BC prepares AFS
  - Functions performed by trustees - fiduciary relationship (honest/good faith)
- Delegate bookkeeping function to accounting firm
- Independent audit (4 months)
- STSMA unclear about subsequent approval
  - Compare Co Act S30(3)(c) (“...FSs approved by BoD... signed by authorized director...”)
- FS section “*Trustees’ Responsibilities and Approval*” (Co Act Directors)

# THE PROCESS OF “APPROVAL”

- Section sets out
  - Responsibilities for internal control
  - Availability of financial resources
  - Trustees accept responsibility for AFS
- Then trustees sign
- After trustee approval, auditor signs audit report
- = final set of FS for presentation at AGM



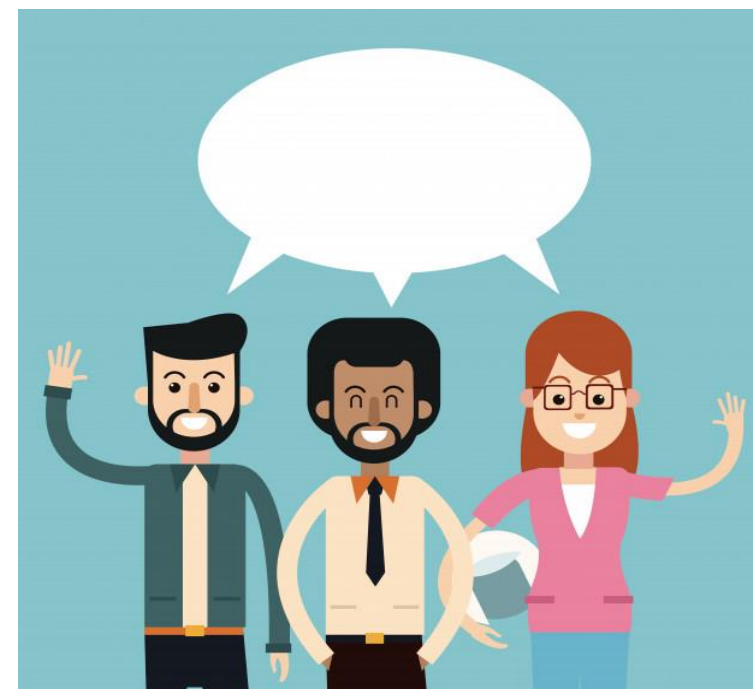


# THE PROCESS OF “APPROVAL”

- BC must consider the AFS at the AGM
  - Compare Co Act “...AFS presented at the AGM...”
  - Companies – approval/adoption of FSs → ordinary resolution at AGM
- Agenda point for BC AGMs
- NB: Approval by trustees → Audit report signed → AGM pack circulated
- Members sufficient time to apply their minds
- Exception rather than rule

# THE PROCESS OF “APPROVAL”

- Exceptional circumstances
  - No circulated with AGM pack
  - Incorrect audit opinion
  - Became aware of fraud
  - Significant misrepresentation
- Matter of contention
  - Invite auditor to AGM
  - Special general meeting
  - Members request forensic investigation
  - Lodge dispute with CSOS



# CONCLUSION

- Compliance matters
- Contents of the financial statements
- Audit reports
- The audit process

# THANK YOU



Léandi Steenkamp → [llubbe@cut.ac.za](mailto:llubbe@cut.ac.za)  
Carla Coetzee → [carla.coetzee@up.ac.za](mailto:carla.coetzee@up.ac.za)