

FROM THE STRATA EXPERTS

Which Type of Year-end Engagement is Right for Your Strata?

Unless you have a background in accounting, all the different jargon in relation to strata financials can be confusing. Notice to Reader (NTR), Compilation, Review, Audit, Real Estate Trust Audit, Forensic Audit. What do these words mean? Which one does the council or owners choose? How do you know which one will give you the assurance you need?

The following is a brief description of the types of engagements.

Compilation (or NTR)

The objective of a compilation engagement, also known as a Notice to Reader (NTR) engagement, is to compile unaudited information into financial statements based on information supplied by the Strata Council (property manager if the strata is professionally managed). The accountant will perform procedures only to determine that the financial statements do not appear to be false or misleading. The accountant will include note disclosures as necessary to highlight and clarify anything in the financial statements that the accountant considers to be false or misleading. Even with the minimal disclosures the accountant may insert, the financial statements prepared will likely not be in accordance with Canadian accounting standards for not-for-profit organizations – particularly with respect to note disclosures.

The Notice to Reader will caution readers that the statements may not be appropriate for their purposes. Notice to Reader statements may be appropriate for the use of management or for the preparation of the Corporate Income Tax return.

Review

The objective of a review engagement is to enable independent Chartered Professional Accountants to render negative assurance that the financial statements are plausibly in accordance with Canadian accounting standards for not-for-profit organizations. Review engagements are conducted in accordance with Canadian generally accepted standards for review engagements and consist primarily of enquiry, analytical procedures and discussion related to information supplied by the Strata Council (property manager if the Strata is professionally managed). Analytical procedures typically include variance analyses where the figures are compared to prior years' actual results and current year budgets. The purpose of conducting the analytical procedures is to identify if the figures appear to be reasonable. Management is queried on the procedures that are used to record activity and balances and on any matters requiring disclosure in the financial statements. Minutes of Council and general meetings are also reviewed to help clarify any major issues that may affect the Strata. Third party confirmations may be sent to financial institutions, insurance brokerages and lawyers to confirm the balances of accounts, insurance coverage and any legal issues.

Financial & Accounting

By Venus Duplin,
CPA, CGA
RHN Chartered
Professional Accountants



After the review the accountants will provide negative assurance on the financial statements stating that 'nothing has come to their attention causes them to believe that the financial statements are not, in all material respects, in accordance with Canadian accounting standards for not-for-profit organizations. Review engagements may be appropriate when the intended users (owners, management, banks) of the financial statements want some enhanced confidence that the financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Audit

The objective of an audit engagement is to enable independent Chartered Professional Accountants to render an opinion on the fairness of the Strata's financial statements, accounting policies and other explanatory information. Audit engagements are conducted in accordance with Canadian generally accepted auditing standards. Those standards require that the auditors comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including

the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Strata's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Strata's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Strata Council (property manager if the Strata is professionally managed), as well as evaluating the overall presentation of the financial statements.

Typical findings in a Strata audit include: unit allocation errors, categorization errors, double payments to suppliers, incorrect payments, and expenditures that have been made outside the resolutions given by the Council and owners through the budget process and/or ¾ vote resolutions.

After the audit, the auditors will provide positive assurance on the financial statements stating that in their opinion, 'the financial statements present fairly, in all material respects, the financial position of the Strata, and its financial performance and its cash flows in accordance with Canadian accounting standards for not-for-profit organizations.'

Audit engagements may be appropriate when the intended users (owners, management, banks) of the financial statements want to gain some confidence that the financial statements are free of material errors and have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

An audit also includes a letter to Council and management to outline significant errors found or non-compliance with accounting standards for not-for-profit organizations or the Strata Property Act and Regulations. The letter will also recommend improvements to internal control systems when the existing systems do not adequately reduce the risk of a material error or fraud from occurring.

Trust Examination

Real estate trust examinations are required for management companies that hold trust funds for clients. An independent accountant analyzes the internal controls of the management company, reviews trust reconciliations and ensures the management company handles the trust funds properly and in accordance with the rules set by the Real Estate Council. The accountant follows procedures set out by the Real Estate Council and no professional judgment is used. A sample of the brokerage's portfolio is tested and your particular Strata might not be analyzed. The sample chosen by the auditor is considered to reflect the entire portfolio of the management company.

Forensic Audit

A forensic audit is an examination and evaluation of a Strata's financial and other records to gather information that can be used as evidence in court. A forensic audit can be undertaken to assist with the prosecution of fraud, embezzlement or other financial claims. Typically, a general purpose audit or suspicious activity identified by Council or Owners will identify specific things to be examined. For example a forensic audit might be done to investigate an incident of fraud or presumptive fraud, with a view to gathering evidence that could be presented in a court of law.

Forensic audits the expert testimony in a court of law are usually very time consuming and costly. Unless there are reasonable grounds to expect that a fraud has occurred and legal action will be taken, a forensic audit is not usually recommended due to the high costs associated with such an audit. ■

Venus Duplin is a key trainer and mentor to RHN team members and is the Director in charge of overseeing the Firm's numerous processes and their compliance with standards and updates.

As a Shareholder, Venus provides services to our not-for-profit, corporate, strata corporations, and First Nations clients in areas of accounting, auditing, taxation, and trust examinations. RHN clients and staff rely on her in-depth technical knowledge and extensive professional experience to provide the best solution to complicated accounting and tax issues.

RHN Chartered Professional Accountants

Venus Duplin, CPA, CGA

Tel: 604-273-9338

www.rhncpa.com

vduplin@rhncpa.com

Comparison Chart

Engagement →	Compilation	Review	Audit
Assurance	None	Negative	Positive
Conforms to ASNPO	No	Yes	Yes
Variance analysis	No	Yes	Yes
Management queried	No	Yes	Yes
Council queried	No	No	Yes
Minutes reviewed	No	Yes	Yes
3 rd party confirmations	No	Possible	Possible
Testing of accounting records	No	No	Yes
Letter to Council / Management	No	Possible	Yes
Cost	Lowest	Medium / High	Highest