

Condo Smarts

Headline: Trust Audits

Topic: Audits

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Dear Condo Smarts: Our strata was told that as of January 1, 2011 we had to have a mandatory audit on our fiscal books. Our fiscal year end isn't until June 30th, so when do we actually have to conduct the audit? More important who is responsible to ensure that the audits are conducted and what is being audited, our annual operating budget, our special levy account, our contingency reserve fund, or all three? In a small strata of only 35 units this is going to be an overwhelming expense and we don't see the point.
Carmel W. Richmond

Dear Carmel: There are two possible requirements for an audit that may have been relayed to your council. One option is an audit requirement under Bill 8 (2009), which included an extensive number of amendments to the Strata Property Act, that came into effect at the beginning of 2010. However, the provisions for audits, depreciation reports and dispute resolution have not been adopted and are not yet in effect and there is no such requirement for a strata audit at this time. If there are any conditions that may warrant the need for an audit, it is always prudent for a strata corporation to consider an annual financial review or audit in the budget planning for the subsequent year. At this time, the government is working on developing the regulations and a series of public consultations are being implemented on line to grant access province wide. Anyone involved in the strata industry is urged to participate in the public review process, and you may register on line to be included in the consultation process by going to: <http://housing.gov.bc.ca/housing/strata.htm>

The second option for an audit may have been the requirements for trust fund financial reviews under the Real Estate Services Act. Your strata has contracted strata management services so those would apply. The "mandatory trust audit," as it is sometimes referred to, is a licensed brokerage's obligation under section 7-7 of the Council Rules to file with the Real Estate Council, within 120 days after the end of the brokerage's fiscal year end, (a) a financial statements for the brokerage for that fiscal year, (b) an accountant's report respecting that fiscal year, and (c) a brokerage activity report. In the case where a

brokerage is a public company as defined by the *Business Corporations Act*, the financial statements must be audited by an independent accountant and, in all other cases, subject to a review engagement or a notice to reader also by an independent accountant.

As part of this engagement, the independent accountant would select and review a random sample of the trust accounts held by the brokerage on behalf its strata corporation clients.

Further, section 5-1(4)(f) of the Council Rules stipulates that a written service agreement for the provision of strata management services must include a clause that sets out the remuneration to be paid under the agreement and the circumstances in which it will be payable. Therefore, should a brokerage choose to charge back a portion of the cost of this mandatory trust audit to its strata corporation client separately from its general service fee, the brokerage must ensure that this cost is set out in the written service agreement and/or a schedule attached to the service agreement, and agreed to by the strata corporation client.

Despite a particular strata corporation having paid a portion of this mandatory trust audit cost, the accountant may or may not have selected for review that particular strata corporation's trust accounts and books and records. Also, there is no legislative obligation for a brokerage to provide a strata corporation with a copy of the Accountant's Report, as the report may contain confidential information regarding trust accounts held by the brokerage on behalf of other clients. For detailed information on the reporting requirements, please see the "Accountant's Report Instructions" which is found at the following link on the Real Estate Council's website:
<http://www.recbc.ca/pdf/Forms/AccountantsReportInstructions.pdf>

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