

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

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

There are varying levels of assurance that relate to each engagement and that is what separates them from each other.

A compilation engagement, also known as a Notice to Reader, provides no assurance to the user of the financial statements. The accountant has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information disclosed in the financial statements.

The purpose of a compilation engagement is to prepare financial statements based on information received from the property management firm or the council if the strata is self-managed. The format of the statements do not need to be in accordance with Canadian generally accepted accounting principles (GAAP) and readers are cautioned that the statements may not be appropriate for their purposes. Users of the statements need to understand the limited use of the statements. They should not be used if assurance is required or if the statements are required to conform to Canadian generally accepted accounting principles.

A review engagement offers limited assurance. Analytical procedures are done and the management and/or client are queried. Analytical procedures that are done include variance analysis where the figures are compared to prior year 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 internal controls that are used when recording and receiving the financial information in addition to other queries the accountant may have based on their professional judgment. Minutes of council and general meetings are also reviewed to help inform the accountant of any major issues that may affect the Strata Plan. Third party confirmations are also sent to financial institutions, insurance brokerages and lawyers to confirm the balances of accounts, insurance coverage and any legal issues.

A review does not constitute an audit and accountants state that nothing has come to their attention that causes them to believe that the financial statements are not in all material respects, in accordance with Canadian generally accepted accounting principles.

A financial audit offers the highest level of assurance. The procedures conducted in an audit include those that are done in a review engagement and additional procedures such as testing of both revenues and expenditures.

A financial audit reassures the owners that the financial statements are reasonably presented. Revenues and expenses are examined from the perspective of their compliance with the Strata Property Act, the

Strata Plan's bylaws and whether or not the financial statements are presented in accordance with Canadian generally accepted accounting principles. Although not the principal purpose of an audit, the procedures could also uncover coding errors, double payments to suppliers, incorrect payments and insure that expenditures have been carried out according to authorizations given by council, owners and through the budget process or $\frac{3}{4}$ vote resolutions.

The auditor will express an opinion on the financial statements and the statements of operations and changes in fund balances and cash flows for the period audited. Audits are conducted in accordance with Canadian generally accepted auditing standards (GAAS). Those standards require that an audit is planned and performed to obtain reasonable assurance whether the financial statements are free of material misstatement.

Real estate trust audits are required to be done on management companies that hold trust funds for clients. An independent auditor analyses the internal controls of the management company, reviews trust reconciliations and ensures the management company handles the trust funds properly and in accordance with 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 accountant is considered to reflect the entire portfolio of the brokerage.

A forensic audit is basically an audit done for a situation that has legal consequences. 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 are 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.

If you have any questions or would like additional information, please do not hesitate to contact Reid Hurst Nagy, CGAs and we will be more than happy to assist you.

Engagement	Compilation	Review	Audit
Assurance	Low	Medium	High
Conform to GAAP	No	Yes	Yes
Variance analysis	No	Yes	Yes
Management queried	No	Yes	Yes
Minutes reviewed	No	Yes	Yes
3 rd party confirmations	No	Yes	Yes
Testing of accounting records	No	No	Yes
Cost	Low	Medium	High

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