
SAICA COMMUNICATION

Auditor Opinions required in terms of Management Rule 26(5)(c) of the Sectional Titles Schemes Management Regulations, 2016

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- *Every effort has been made to ensure that the information in this document is complete and accurate. Nevertheless, information is given purely as guidance with respect to the subject matter and SAICA will have no responsibility to any person for any claim of any nature whatsoever which may arise out of or related to the contents of this document.*
- *The information provided in this document does not constitute legal advice and should be read in that context.*
- *Where the document suggests a particular view, such a view is based on SAICA's interpretation at that point in time, of the relevant laws, regulations, standards, codes and related pronouncements. Although SAICA has consulted widely, it is possible that a different view may ultimately be followed in practice; for example, in instances where the Community Schemes Ombud Service (CSOS) provides specific guidance or clarification.*

1. Introduction – Rule 26(5)(c)

The Sectional Titles Schemes Management Regulations, 2016 (the Regulations) have been issued in terms of the Sectional Titles Schemes Management Act, 2011 (Act No 8 of 2011) (the Act) and are effective as from 7 October 2016. The Regulations contain the Management Rules (the Rules) for sectional titles schemes, as prescribed and as amended by a body corporate in accordance with section 10 of the Act.

Rule 26 addresses the financial records, budgets, reports and audit of a body corporate.

Rule 26(5)(c) requires that 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.

When Rule 26(5)(c) is read in the context of the entire Rule 26(5) that requires the performance of the audit of a body corporate's annual financial statements by an independent auditor within the meaning of the Auditing Profession Act (Act No. 26 of 2005) (with reference to the definitions of "auditor" and "Registered auditor" as contained in the Regulations), the various auditor opinions that are required to be expressed create fundamental challenges in terms of what engagement the auditor would be able to perform and the opinion(s)/conclusion(s) the auditor would be able to express. The "opinions" referred to are not wholly consistent with, and in certain instances fall outside the scope of an audit as provided for in accordance with International Standards on Auditing (ISAs) that have been adopted and prescribed for use by registered auditors in South Africa.

Representatives from the IRBA and SAICA engaged with representatives from the Community Schemes Ombud Service (CSOS) to explore these challenges and the interpretation of what is required from the registered auditor (the auditor) in the interest of the members of body corporates. The Chief Ombud agreed to the approach that is outlined in this communication.

2. The body corporate's audited annual financial statements as contemplated in Rule 26(5)(c)(i)

First and foremost, a body corporate is required to prepare annual financial statements (financial statements) in terms of Rule 26(1)(c) read together with Rule 26(5), and cause these financial statements to be audited by an auditor, as defined.

In terms of section 1 of the Auditing Profession Act (Act No. 26 of 2005), "audit" includes an audit of financial statements carried out with the objective of expressing an opinion as to their fairness or compliance with an identified financial reporting framework and any applicable statutory requirements, and the registered auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Independent Regulatory Board for Auditors (IRBA) (defined as "auditing pronouncements" in the Auditing Profession Act (Act No. 26 of 2005)).

Rule 26(5)(c)(i) is interpreted as requiring an audit of financial statements as contemplated in the Auditing Profession Act. Based on the audit that has been conducted and the audit evidence obtained, the registered auditor would form an opinion and report on the financial statements of the body corporate in accordance with ISA 700 (Revised)¹.

Financial reporting frameworks

¹ The audit of financial statements is conducted in accordance with International Standards on Auditing (ISAs). Depending on the financial reporting framework used in the preparation of the financial statements of the body corporate, the auditor's report is issued in terms of ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, or ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

CSOS has clarified by way of a Chief Ombud's Circular that, in terms of Rule 26(5)(b), no particular financial reporting framework has been prescribed for the preparation of the financial statements of a body corporate (refer to [Chief Ombud's Circular No. 1 of 2017](#), issued in March 2017). The body corporate may decide to prepare its financial statements in accordance with any recognised financial reporting standards, or may use a basis of accounting as determined by the body corporate (i.e. an entity-specific basis of accounting)². In terms of performing the audit of those financial statements in accordance with ISAs, the registered auditor would have to determine whether the financial reporting framework applied in the preparation of the body corporate's financial statements is acceptable.

Registered auditors should refer to SAAPS 2 (Revised November 2013), *Financial Reporting Frameworks and the Auditor's Report*, for additional guidance to decide whether the financial reporting framework used by the body corporate is acceptable.

Illustrative wording regarding an unmodified auditor's opinion on the financial statements of a body corporate that has been prepared in accordance with recognised financial reporting standards (*a fair presentation framework*):

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Body Corporate as at 30 September 20X1, 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 Schemes Management Act, 2011, the Sectional Titles Schemes Management Regulations, 2016 and the Management Rules of the body corporate established in terms thereof.³

Illustrative wording regarding an unmodified auditor's opinion on the financial statements of a body corporate that has been prepared in accordance with an entity-specific basis of accounting (*a compliance framework*):

In our opinion, the financial statements for the year ended 30 September 20X1 are prepared, in all material respects, in accordance with the basis of accounting as disclosed in note [note number] 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.⁴

Also refer to the Illustrative auditor reports included in Appendix 1 and 2.

² Irrespective of the financial reporting standards or basis of accounting that the trustees of the body corporate decide to apply, the body corporate's financial statements are also required to comply with the additional financial reporting provisions in terms of Management Rule 26(1) as part of the Sectional Title Schemes Management Regulations, 2016, issued in terms of the Sectional Title Schemes Management Act, 2011

³ The registered auditor complies with ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

⁴ The registered auditor complies with ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

Going concern

Registered auditors are alerted that they should take care to ensure that due consideration is given to the going concern status of the body corporate being audited, particularly in circumstances where the body corporate may be insolvent. The auditor is required to comply with the requirements of ISA 570, *Going concern*, in order to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of the trustee's use of the going concern basis of accounting in the preparation of the financial statements, to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the body corporate's ability to continue as a going concern, and to report in accordance with the standard.

Depending on the circumstances and based on the audit evidence obtained, the auditor may be required to include a "Material uncertainty related to going concern" section in the auditor's report in accordance with ISA 570 (Revised), or may be required to express a qualified opinion or adverse opinion or disclaimer of opinion, as appropriate, in accordance with ISA 705 (Revised), *Modifications to the opinion in the independent auditor's report*.⁵

3. Compliance by the body corporate with certain accounting requirements in terms of Rule 26(5)(c)(ii)

An engagement of this nature would have as its subject matter the body corporate's compliance with identified requirements of laws and regulations, in this instance, Rules 21, 24 and 26 of the Management Rules in accordance with the Regulations. It is suggested that the applicable International Standard is ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

Furthermore, owing to the fact that the trustees of the body corporate are not required to make any statement regarding the body corporate's compliance in this regard, the assurance engagement that would be required, is a *direct engagement*. Such engagement could be performed in accordance with ISAE 3000 (Revised), adapted and supplemented as necessary in the engagement circumstances (ISAE 3000 (Revised), par. 2).

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.

⁵ Refer to ISA 570 (Revised), paragraphs 17-24 (and the related application and other explanatory material).

The appropriate section in the auditor's report for including such findings, is under the separate heading "Report on Other Legal and Regulatory Requirements", that follow the "Report on the Audit of the Financial Statements" section of the Independent Auditor's Report. Refer to ISA 700 (Revised), par. 42-44, as well as the illustration of the separate section in the auditor's report in section 5, below.

The consideration of laws and regulations in an audit of financial statements

Registered auditors are alerted to the fact that the approach discussed above with respect to reporting on the compliance by the body corporate with certain accounting requirements does not override or diminish in any way the auditor's responsibility to comply in all material respects with the requirements of the ISAs in conducting the audit of the body corporate's financial statements, including ISA 250, *Consideration of laws and regulations in an audit of financial statements*.

When the auditor's procedures and related work effort in accordance with the requirements of ISA 250 in particular, or in relation to any other aspect of the audit brings instances of non-compliance or suspected non-compliance to the auditor's attention, the auditor shall obtain an understanding of the nature of the act and the circumstances in which it has occurred, and further information to evaluate the possible effect on the financial statements.

If the auditor concludes that an identified or suspected non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, or the auditor is limited by management or those charged with governance or by the circumstances from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall consider the effect on the auditor's opinion in accordance with ISA 705 (Revised). In such instances the auditor may be required to express a qualified opinion or an adverse opinion or a disclaimer of opinion (as appropriate).

Therefore, the reporting of a finding in the auditor's report regarding non-compliance by the body corporate with the accounting requirements set out in management rules 21, 24 and 26 in the "Report on Other Legal and Regulatory Requirements" section of the auditor's report is not a substitute for modifying the auditor's opinion on the financial statements in accordance with ISA 705 (Revised) in those instances where non-compliance has or may have a material effect on the financial statements.

4. Auditor opinions as contemplated in terms of Rule 26(5)(c)(iii) and (iv)

When the registered auditor is required to express an *opinion* or *conclusion* on any particular subject matter or subject matter information, the implication is that an assurance engagement is required. Depending on the nature of the subject matter or subject matter information, and the information needs of the intended users, such engagements can provide either reasonable assurance or limited assurance in accordance with ISAs, International Standards on Review Engagements (ISREs) or International Standards on Assurance Engagements (ISAEs), as applicable.

The registered auditor can only accept an engagement if the preconditions for an audit or an assurance engagement are met. Two of these preconditions are that the underlying subject matter is appropriate; i.e. it is identifiable and capable of consistent measurement or evaluation against applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support the auditor's opinion or conclusion; and that the criteria that the auditor expects to be applied in the preparation of the subject matter information exhibit all the characteristics of *suitable criteria*.

The assurance engagements, or part of an assurance engagement, as contemplated in Rules 26(5)(c)(iii) and (iv) would not meet the above preconditions for an assurance engagement and therefore the registered auditor would have to decline the engagement. The management of funds in a manner so as to provide a reasonable level of protection against fraud or theft, and the effective management of financial affairs of an entity are not generally identifiable and would not be able to be evaluated or measured against identified criteria so as to provide a basis for concluding on these matters. This means that there is no consistent way that one could measure "reasonable level of protection against fraud or theft" and no consistent way to measure whether financial affairs "appear to be effectively managed". Since the subject matters are not appropriate and there are no suitable criteria for their evaluation or measurement, it is not possible to express the auditor opinions as contemplated in Rules 26(5)(c)(iii) and (iv).

The appropriate section in the auditor's report to inform the intended users about these matters and the registered auditor's inability to perform an assurance engagement and express separate auditor opinions in this regard, is under the separate heading "Report on Other Legal and Regulatory Requirements", that follow the "Report on the Audit of the Financial Statements" section of the Independent Auditor's Report. Refer to ISA 700 (Revised), par. 42-44, as well as the illustration of the separate section in the auditor's report in section 5, below.

5. Illustration of separate section in the auditor's report: Report on other legal and regulatory requirements

With reference to the conclusions reached in relation to the auditor opinions required in terms of Rules 26(5)(c)(ii), (iii) and (iv), above, the registered auditor is required to include the following section in the auditor's report on the financial statements of a body corporate, as required in terms of ISA 700 (Revised) and in applying the guidance in SAAPS 3 (Revised November 2015), *Illustrative Reports*.

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:

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.⁶

[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 a required to report our findings. We identified the following instances of non-compliance with the Rules⁷:

- [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]

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.

Also refer to the Illustrative auditor reports included in Appendix 1 and 2.

⁶ Refer to discussion in section 3, above (Compliance by the body corporate with certain accounting requirements in terms of Rule 26(5)(c)(ii)). If a particular non-compliance with management rules 21, 24 or 26 resulted in the auditor having to modify the auditor's opinion on the financial statements in accordance with ISA 705 (Revised), it will not be appropriate to include that particular contravention in this section of the auditor's report. In such instance the wording of this paragraph may be adapted as follows: "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. Except for the matter(s) described in the Basis for [Qualified / Adverse / Disclaimer of] Opinion section, we have nothing to report in this regard."

⁷ Similar to footnote 6; however, in this instance the wording of the paragraph may be adapted as follows: "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 a required to report our findings. In addition to the matter(s) described in the Basis for [Qualified / Adverse / Disclaimer of] Opinion section, we identified the following instances of non-compliance with the Rules:"

APPENDIX 1

Illustrative auditor's report on a complete set of general purpose financial statements of a body corporate (i.e. sectional titles scheme) prepared in accordance with a fair presentation framework 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 thereof⁸

This illustrative auditor's report assumes the following circumstances:

- Audit of the financial statements of a body corporate in terms of the Sectional Titles Schemes Management Act, 2011, the Sectional Titles Schemes Management Regulations, 2016 and the Management Rules of the body corporate, using the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the body corporate's ability to continue as a going concern.
- Key audit matters are not required by law or regulation to be communicated for the body corporate and it is also not voluntarily communicated.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The annual financial statements of the body corporate include a Trustees' Report as contemplated in Rule 26(1)(f).
- The auditor has additional reporting responsibilities 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).
- During the course of the audit of the financial statements of the body corporate, the auditor did not become aware of any instances of non-compliance with the accounting requirements set out in management rules 21, 24 and 26.
- The auditor has not had occasion to report a reportable irregularity in accordance with section 45 of the Auditing Profession Act, 2005.

Independent Auditor's Report

To the Members of ABC Body Corporate

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Body Corporate set out on pages ... to ..., which comprise the statement of financial position as at 30 September 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity

⁸ Auditor's report on the body corporate's financial statements in accordance with ISA 700 (Revised)

and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Body Corporate as at 30 September 20X1, 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 Schemes Management Act, 2011, the Sectional Titles Schemes Management Regulations, 2016 and the Management Rules of the body corporate established in terms thereof.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the body corporate in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Parts A and B)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The trustees are responsible for the other information. The other information comprises the Trustees' Report set out on pages ... to ..., but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of the Trustees for the Financial Statements

The trustees are responsible for the preparation and fair presentation of the financial statements in accordance with the 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 Rules of the body corporate established in terms thereof, as well as for such

internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the body corporate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 body corporate's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the body corporate's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the body corporate to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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:

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.

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.

[Auditor's Signature]

[Name of individual registered auditor]

[Capacity if not a sole practitioner: e.g. Director or Partner]

Registered Auditor

[Date of the auditor's report]

[Auditor's address]

Appendix 2\...

APPENDIX 2

Illustrative auditor’s report on a complete set of special purpose financial statements of a body corporate (i.e. sectional titles scheme) prepared in accordance with a basis of accounting determined by the trustees (i.e. an entity specific basis of accounting) 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 thereof⁹

This illustrative auditor’s report assumes the following circumstances:

- Audit of the financial statements of a body corporate in terms of the Sectional Titles Schemes Management Act, 2011, the Sectional Titles Schemes Management Regulations, 2016 and the Management Rules of the body corporate, using a basis of accounting determined by the trustees (i.e. an entity specific basis of accounting). The financial statements are intended for the purpose of providing financial information to the members of the body corporate, considered specific users.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the body corporate’s ability to continue as a going concern.
- Key audit matters are not required by law or regulation to be communicated for the body corporate and it is also not voluntarily communicated.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The annual financial statements of the body corporate include a Trustees’ Report as contemplated in Rule 26(1)(f).
- The auditor has additional reporting responsibilities 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).
- During the course of the audit of the financial statements of the body corporate, the auditor did not become aware of any instances of non-compliance with the accounting requirements set out in management rules 21, 24 and 26.
- The auditor has not had occasion to report a reportable irregularity in accordance with section 45 of the Auditing Profession Act, 2005.

⁹ Auditor’s report on the body corporate’s financial statements in accordance with ISA 800 (Revised)

Independent Auditor's Report

To the Members of ABC Body Corporate

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Body Corporate set out on pages ... to ..., which comprise the statement of financial position as at 30 September 20X1, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements for the year ended 30 September 20X1 are prepared, in all material respects, in accordance with the basis of accounting as disclosed in note [note number] 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the body corporate in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Parts A and B)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to note [note number] to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the body corporate's own accounting policies to satisfy the financial information needs of its members. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The trustees are responsible for the other information. The other information comprises the Trustees' Report set out on pages ... to ..., but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of the Trustees for the Financial Statements

The trustees are responsible for the preparation of the financial statements in accordance with the basis of accounting described in note [note number] 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, as well as for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the body corporate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 body corporate's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the body corporate's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the body corporate to cease to continue as a going concern.

We communicate with the trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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:

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.

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.

[Auditor's Signature]

[Name of individual registered auditor]

[Capacity if not a sole practitioner: e.g. Director or Partner]

Registered Auditor

[Date of the auditor's report]

[Auditor's address]