
SAICA COMMUNICATION

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

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1. Introduction – Management Rule 26(5)(c)

The Sectional Titles Schemes Management Regulations, 2016 (the Regulations), issued in terms of the Sectional Titles Schemes Management Act, 2011 (Act No. 8 of 2011) (the Act), have been effective since 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:

- 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 opinions that are required to be expressed by the auditor 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 Independent Regulatory Board for Auditors (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 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 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 annual

financial statements of the body corporate in accordance with ISA 700 (Revised) or ISA 800 (Revised)¹.

Financial reporting 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 annual 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 annual 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). In terms of performing the audit of those annual 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 annual financial statements is acceptable².

Irrespective of the trustees' decision to apply recognised financial reporting standards or an entity-specific basis of accounting in the preparation of the annual financial statements, the body corporate's annual financial statements are also required to comply with the additional financial reporting provisions in terms of Management Rule 26(1)(c), which are part of the Sectional Title Schemes Management Regulations, 2016, issued in terms of the Sectional Title Schemes Management Act, 2011. The applicable financial reporting framework for a body corporate thus encompasses both the identified financial reporting framework and additional regulatory requirements³.

Management Rule 26 determines the following:

(1) A body corporate must—

...

- (c) *prepare annual financial statements for presentation at the annual general meeting, which statements must include analyses of the —*
 - (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;*
 - (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*

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*.

² Refer to ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(a) and A2-A10.

³ Refer to ISA 210 paragraphs 18 and A36 and ISA 700 (Revised) paragraph A29.

such amounts were owed;

- (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;*
- (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;*
- (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; and*
- (vi) amounts due and payable to the Community Schemes Ombud Service.*

The analyses required by Management Rule 26(1)(c) are required to be included in the body corporate's annual financial statements and are covered by the auditor's opinion on the annual financial statements. Registered auditors may refer to SAAPS 2 (Revised 2018), *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 annual financial statements of a body corporate that have been prepared in accordance with recognised financial reporting standards (a general purpose framework that is a fair presentation framework⁴):

In our opinion, the annual 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 of South Africa.⁵

Illustrative wording regarding an unmodified auditor's opinion on the annual financial statements of a body corporate that have been prepared in accordance with an entity-specific basis of accounting (a special purpose framework that is a compliance framework⁶):

In our opinion, the annual financial statements of ABC Body Corporate for the year ended 30 September 20X1 are prepared, in all material respects, in accordance with the basis of accounting described in note [note number] to the annual financial statements and the

⁴ "General purpose framework" and "fair presentation framework" have the meanings as defined in the IAASB Glossary of Terms.

⁵ The registered auditor complies with ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

⁶ "Special purpose framework" and "compliance framework" have the meanings as defined in the IAASB Glossary of Terms.

requirements of the Sectional Titles Schemes Management Act of South Africa.⁷

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

Going concern

Registered auditors are alerted that due consideration should be 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 (Revised), *Going Concern*, in order to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of the trustees' use of the going concern basis of accounting in the preparation of the annual 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*.⁸

Other information

ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(a) defines the "annual report" as a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

ISA 720 (Revised).12(c) defines "other information" as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

⁷ The registered auditor complies with ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

⁸ Refer to ISA 570 (Revised), paragraphs 17-24 (and the related application and other explanatory material).

ISA 720 (Revised).13(a) requires the auditor to determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s).

Management Rule 26 determines the following:

(1) *A body corporate must—*

...

- (d) *prepare a maintenance, repair and replacement plan in accordance with rule 22 for presentation at the annual general meeting;*
- (e) *prepare budgets for the administrative and reserve funds comprising itemised estimates of the anticipated income and expenses during the next financial year for presentation at the annual general meeting; provided that such budgets may include discounts not exceeding 10 per cent of a members' annual contributions applicable if all those contributions are paid on or before the due dates;*
- (f) *prepare a report adopted by the trustees reviewing the affairs of the body corporate during the financial year for presentation at the annual general meeting.*

The information prepared by the body corporate in terms of Management Rule 26(1)(d) to (f) may form part of the body corporate's "other information" as envisaged by ISA 720 (Revised).

Registered auditors may refer to ISA 720 (Revised) and SAAPS 3 (Revised May 2019), *Illustrative Reports*, for guidance on determining what would constitute "other information".

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 annual financial statements of a body corporate was not to impose more onerous requirements on a body corporate beyond the audit of the annual 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 annual financial statements, *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.

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 Annual Financial Statements” section of the Independent Auditor’s Report. Refer to ISA 700 (Revised), par. 43 - 45, 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 annual financial statements, including ISA 250 (Revised), *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 (Revised) 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 obtain further information to evaluate the possible effect on the annual financial statements.

If the auditor concludes that an identified or suspected non-compliance has a material effect on the annual financial statements, and has not been adequately reflected in the annual 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 in 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 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 annual financial statements in accordance with ISA 705 (Revised) in those instances where non-compliance has or may have a material effect on the annual financial statements.

The auditor is furthermore required to comply with the non-compliance with laws and regulations (NOCLAR) provisions in Section 360 of the IRBA *Code of Professional Conduct for Registered Auditors* (the IRBA Code) and with the requirements of Section 45 of the Auditing Profession Act with regard to reportable irregularities. The reporting of a finding in the auditor's report regarding non-compliance by the body corporate with the accounting requirements set out in 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 complying with Section 360 of the IRBA Code or with Section 45 of the Auditing Profession Act. Note also, that the ambit of ISA 250 (Revised), the NOCLAR provisions in the IRBA Code and reportable irregularity considerations are wider than the Sectional Titles Schemes Management Act.

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 Annual Financial Statements” section of the Independent Auditor’s Report. Refer to ISA 700 (Revised), par. 43 - 45, 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 annual financial statements of a body corporate, as required in terms of ISA 700 (Revised) and in applying the guidance in SAAPS 3(Revised May 2019), *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, Management Rules 26(5)(c)(ii), (iii) and (iv), we report as follows:

Compliance findings with accounting requirements (Management 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 annual 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.⁹

⁹ 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 annual financial statements in accordance with ISA 705 (Revised), it will not be appropriate to only 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 annual 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. Other than the matter(s) described in the Basis for [Qualified / Adverse / Disclaimer of] Opinion

[OR]

If during the course of our audit of the annual 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 identified the following instances of non-compliance with these Management Rules¹⁰:

- [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 (Management Rules 26(5)(c)(iii) and (iv))

The assurance engagements, or part of an assurance engagement, as contemplated in Management Rules 26(5)(c)(iii) and (iv) do not meet the preconditions for an assurance engagement as determined by the relevant International Standards applicable to audit, review and other assurance engagements: The subject matters are not appropriate and there are no suitable criteria for their evaluation or measurement. We were therefore unable to accept an assurance 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 Management 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's reports included in Appendix 1 and 2.

section of our report, we have nothing further to report in this regard."

¹⁰ Similar to footnote 9; however, in this instance the wording of the paragraph may be adapted as follows: "If during the course of our audit of the annual 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. In addition to the matter(s) described in the Basis for [Qualified / Adverse / Disclaimer of] Opinion section of our report, we identified the following instances of non-compliance with these Management 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, 2011¹¹

This illustrative auditor’s report assumes the following circumstances:

- Audit of the annual financial statements of a body corporate in terms of Management Rule 26(5)(c)(i).
- The trustees have prepared the body corporate’s annual financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) and the requirements of the Sectional Title Schemes Management Act of South Africa.
- The annual financial statements comprise the statement of financial position as at 30 September 20X1, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.
- The annual financial statements are prepared for a financial period beginning on or after 15 June 2019.
- The audit is not a group audit (i.e. ISA 600 does not apply).
- 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 document that contains the annual financial statements of the body corporate is titled “ABC Body Corporate Annual Report for the year ended 30 September 20X1”. This document includes a Trustees’ Report as contemplated in Rule 26(1)(f) which forms part of other information as defined in ISA 720 (Revised)¹².
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material inconsistency between the other information and the annual financial statements or between the other information and the auditor’s knowledge obtained

¹¹ Auditor’s report on the body corporate’s financial statements in accordance with ISA 700 (Revised)

¹² ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

in the audit or a material misstatement of the other information.

- 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 annual 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 Annual Financial Statements

Opinion

We have audited the annual 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 comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.¹³

In our opinion, the annual 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 of South Africa.

Basis for Opinion¹⁴

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 Annual 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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹³ Note that the title of each statement comprising the annual financial statements should correlate to the actual annual financial statements of the Body Corporate.

¹⁴ The "Basis for Opinion" paragraph that applies to audits of financial statements for financial periods beginning on or after 15 June 2019 as indicated in SAAPS 3 (Revised May 2019) has been used in this illustrative report, amended as necessary to refer to body corporates.

Other Information

The trustees are responsible for the other information. The other information comprises the information included in the document titled “ABC Body Corporate Annual Report for the year ended 30 September 20X1”, but does not include the annual financial statements and our auditor’s report thereon.

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.

Responsibilities of the Trustees for the Annual Financial Statements

The trustees are responsible for the preparation and fair presentation of the annual 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 of South Africa, and for such internal control as the trustees determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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 Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual 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 annual 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 annual 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 annual 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, Management Rules 26(5)(c)(ii), (iii) and (iv), we report as follows:

Compliance findings with accounting requirements (Management 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 annual 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 (Management Rules 26(5)(c)(iii) and (iv))

The assurance engagements, or part of an assurance engagement, as contemplated in Management Rules 26(5)(c)(iii) and (iv) do not meet the preconditions for an assurance engagement as determined by the relevant International Standards applicable to audit, review and other assurance engagements: The subject matters are not appropriate and there are no suitable criteria for their evaluation or measurement. We were therefore unable to accept an assurance 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 Management 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 (a compliance framework) and the requirements of the Sectional Titles Schemes Management Act, 2011¹⁵

This illustrative auditor’s report assumes the following circumstances:

- Audit of the financial statements of a body corporate in terms of Management Rule 26(5)(c)(i).
- The trustees have prepared the body corporate’s annual financial statements using a basis of accounting determined by the trustees (i.e. an entity specific basis of accounting) and the requirements of the Sectional Title Schemes Management Act of South Africa. The trustees have a choice of financial reporting frameworks.
- The annual financial statements are intended for the purpose of providing financial information to the members of the body corporate, considered to be specific users.
- The auditor has concluded that the basis of accounting is acceptable to the intended users of the annual financial statements.
- The annual financial statements comprise the statement of financial position as at 30 September 20X1, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.
- The annual financial statements are prepared for a financial period beginning on or after 15 June 2019.
- The audit is not a group audit (i.e. ISA 600 does not apply).
- 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 document that includes the annual financial statements of the body corporate is titled “ABC Body Corporate Annual Report for the year ended 30 September 20X1”. This document includes a Trustees’ Report as contemplated in Rule 26(1)(f) which forms part of other information as defined in ISA 720 (Revised)¹⁶.

¹⁵ Auditor’s report on the body corporate’s financial statements in accordance with ISA 800 (Revised).

¹⁶ ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*.

- The auditor has obtained all of the other information prior to the date of the auditor's reports and has not identified a material inconsistency between the other information and the annual financial statements or between the other information and the auditor's knowledge obtained in the audit or a material misstatement of the other information.
- 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 annual 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 Annual Financial Statements

Opinion

We have audited the annual 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 comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.¹⁷

In our opinion, the annual financial statements of ABC Body Corporate for the year ended 30 September 20X1 are prepared, in all material respects, in accordance with the basis of accounting described in note [note number] to the annual financial statements and the requirements of the Sectional Titles Schemes Management Act of South Africa.

Basis for Opinion¹⁸

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 Annual 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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

¹⁷ Note that the title of each statement comprising the annual financial statements should correlate to the actual annual financial statements of the Body Corporate.

¹⁸ The "Basis for Opinion" paragraph that applies to audits of financial statements for financial periods beginning on or after 15 June 2019 as indicated in SAAPS 3 (Revised May 2019) has been used in this illustrative report, amended as necessary to refer to body corporates.

Emphasis of Matter – Basis of Accounting

We draw attention to note [note number] to the annual financial statements, which describes the basis of accounting. The annual 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 annual 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 information included in the document titled "ABC Body Corporate Annual Report for the year ended 30 September 20X1", but does not include the annual financial statements and our auditor's report thereon.

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.

Responsibilities of the Trustees for the Annual Financial Statements

The trustees are responsible for the preparation of the annual financial statements in accordance with the basis of accounting described in note [note number] and the requirements of the Sectional Titles Schemes Management Act of South Africa, for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the trustees determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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 Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual 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 annual 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 annual 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, Management

Rules 26(5)(c)(ii), (iii) and (iv), we report as follows:

Compliance findings with accounting requirements (Management 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 annual 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 (Management Rules 26(5)(c)(iii) and (iv))

The assurance engagements, or part of an assurance engagement, as contemplated in Management Rules 26(5)(c)(iii) and (iv) do not meet the preconditions for an assurance engagement as determined by the relevant International Standards applicable to audit, review and other assurance engagements: The subject matters are not appropriate and there are no suitable criteria for their evaluation or measurement. We were therefore unable to accept an assurance 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 Management 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]