



# Document, Document, Document ...

## There Is Often Confusion and Frustration With the Auditors' Documentation Requirements



Document, document, document... the audit professor would go on writing on the chalkboard. The etching sounds of the chalkboard just barely drowned out the “whatever” that ran through my head that day in class. Turning the tables around 25 years later, the irony is that I now use the same repeated words to our new staff recruits at the beginning of each year.

In relation to condominium governance and with property management, I find too often that there is confusion and perhaps some frustration with the amount of documentation the auditor requires.

Gaining a better perspective with the information that the documentation provides as well as using such documentation to help with the overall governance of a condominium then creates value. Management can also turn the chore of documentation to a tool for greater management efficiency. I am a believer that if one takes the time to do something, do that something well and

do it to create other benefits or efficiencies.

The first group of documents which are normally generated by both the boards and management companies are more verbose than financial in nature.

### **Management's and Board's Assessment of Fraud Risk**

There is an adage that says if you don't ask then you'll never know. So why not ask the most difficult question directly and make the respondent candid about responding to fraud. The purpose and scope of this formal document is to allow both the board and management to assess and document the risks that the financial statements may be materially misstated due to fraud. The benefit of having this document circulating around is that all parties are aware that the auditor is conducting his duties in being sceptical of fraud and questioning the parties involved. As well, it sets a tone that there are various other parties that need to review and sign off on whether they were

exposed to fraud. It also gives opportunity for the board and management to write details of any situation that they feel may have been inappropriate. The required signoff of this document alone is very powerful in the discussions it creates within the Board's, as well as management's, representations therein.

### **Minutes of the Board meetings**

The board meeting minutes have both a legal and audit value with the information that has been transcribed in them. In the event of a legal dispute, the minutes should reflect the details of the lawsuit and perhaps make reference to specific court or legal documents discussed at the board meeting. I find that it is useful to have attached to the minutes the legal document that was discussed. For transparency and for future board meetings, the prior minutes would then provide a good summary of where things stand. The auditor needs to have this information to assess if there are any liabilities and contingencies that

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a condominium may have to report and disclose in the notes to the statements. Another good minute taking practice is to document where there is a board vote, which board member approved and what was approved. Where the board votes on a significant matter such as a special assessment or reserve fund expenditure, a good level of detail should be invested here with respect to reasons why the board has made this decision. This benefits the board in the future to have documented justification for their decision for clarity and transparency to the owners. The auditor will benefit by having clear audit documentation that a decision was made and approved, which can then be compared with the presentation on the financial statements. The auditor will also review minutes beyond the year end date of the condominium to assess if there are any subsequent events that would need to be disclosed in the statements. The owners do have a right to know what is happening currently that may impact the prior year financials from the outcome of a subsequent event.

#### Legal confirmation

The auditor should query the condominium's lawyer if there are any ongoing claims or lawsuits that would materially impact the presentation of the financial statements. The lawyer would typically reply in writing that there are no claims ongoing; however, in the event that there are claims, then it would be the obligation

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of the auditor to review such claims and ensure that claims are properly accounted for in the statements. The auditor would not have the same capacity to assess the validity of the claim as the lawyer, who is intimate with the claim, and would make his or her professional assessment of the merits of the case as well as assess the likelihood of the liability. This interaction certainly is of benefit to both current owners of the condominium as well as potential buyers if a serious claim has been made. Depending on how material the claim is, it would be wise for boards to consider having their lawyer draft a note of disclosure in very specific terms, includ-

ing the nature and amount of the claim so as to properly represent the details of the case in the audited financial statements.

#### Internal controls

Most boards rely on the management company to establish and maintain proper internal controls for the governance of their condominium. The board should obtain and review the internal controls documentation from their property management companies so it is aware of authorization procedures, as well as processes undertaken by the management company, enacted in their best interests. The auditor also needs to document the internal control systems and test such controls for their effectiveness. The management and board should pay particular attention to the documentation around the handling of reserve fund bank and investment accounts, as the size and risk of loss of such funds represent the condominium's largest asset. Revisions to the internal control documentation should also be reviewed on a regular basis based on new or greater risks the condominium is exposed to.

The next series of material documents are typically more financial in nature and are generally used to support the capital, reserve and operating expenditures.

#### Capital acquisitions binder

It is both useful to management, as well as for boards, to maintain a binder that holds



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Pat Parrish,  
Registered Condominium Manager

As a Registered Condominium Manager, I believe it's very important to develop and maintain solid working and professional relationships to work as a team with my condominium boards.

To build the trust and confidence required to do that, you have to know the ins-and-outs of the industry. The property management company I work for requires that its managers achieve the RCM designation from ACMO. ACMO's education program practices a solid understanding of building systems and maintenance, accounting, communications, project planning and condo law. All of which are essential for an efficient, well-managed operation. My RCM designation gives the condominium board, and owners, the confidence that their home is being professionally managed.

VISIT [ACMO.ORG](http://ACMO.ORG) TO LEARN MORE ABOUT THE RCM DESIGNATION.

**RCM**

## MTCC # 1136 Bamburgh Manor & Casitas

1881 McNicoll Avenue, Scarborough, Ontario M 1V 5M2

### Profile Highlights

Bamburgh Manor & Casitas is one of the best Tridel community built in the GTA with a unique layout of the townhomes - where the gated area is surrounded by municipal parks on both sides, a lake and a small forest behind the community center, creating a private residential area. The homes are designed with large space and comfort in mind – something that you cannot find in new condos anymore. When this community was built, the idea of condominium living was just in its early stage. It's a peaceful and quiet community that provides all the amenities that one can desire including a recreation center, swimming pool, security and a private park with a fountain; a "hotel like" living in your own home.



**Date Built:** 1996

**Condo Style:** Townhouse

**Number of Units:** 192

**Management Company:** Del Property Management



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details of major capital assets acquired. Typically, gym equipment and computers make up the bulk of the capital expenditures; however, I have seen assets such as trucks, snow removal and landscaping equipment. In the situation with reserve fund expenditures, major acquisitions could include new boilers, elevators, and any other major tangible items. The auditor would review the binder to support the existence of such assets. Board and management should maintain the binder for warranties and perhaps create sub-folders for the location and service logs of the capital assets. The capital asset binder should be maintained by the board at the site level in the event there is a change in management. The binder will then carry forward beyond the fiscal year the asset was acquired as well as with any property management changes.

### Contracts binder

Similar to the capital acquisitions, a binder should be maintained with copies of all the current contracts in it. The auditor will need to review the contracts to ensure that there is proper authorization and disclosure of the financial commitments of such contracts in the financial statements. I would recommend that both board and management work together to create a spreadsheet timeline that tracks the originating date of the contracts as well as the end dates of same. This will help in tracking what contracts are out as well as give adequate time to negotiate contracts well before the

I would recommend that both board and management work together to create a spreadsheet timeline that tracks the originating date of the contracts as well as the end dates of same

renewal date. As well, this binder should be maintained at the site level so that it will carry on through fiscal years as well as through property management changes.

### Audit confirmations

The auditor should ensure the existence and cut-off of various balances, and will likely send out confirmations to support his or her audit opinion. Most common is the bank confirmation, which is sent to the financial institution where the operating, reserve and investments are held. The reserve funds are, in most cases, the largest asset that a condominium would have. Accordingly, this is the most important third

party document that the auditor can obtain to confirm the existence of the condominium's investments. The auditor likely also sends out condominium receivable confirmations, which have occasionally helped out with collections, in my experience. The auditor confirmation generally brings a heightened attention to the outstanding balance. I have had cases where the confirmation was misunderstood and the owner ended up mailing a cheque back with the confirmation, which we ended up having to forward it to management. On the other side, auditors send payable confirmations to suppliers to verify the amounts owing to them from the condominium. Insurance confirmations are also sent, which the auditor should evaluate to ensure there is current coverage and determine whether such coverage is generally adequate to cover potential losses to the common elements.

There are, of course, various other documents that are required for the operation of the common elements, as well as those for legal purposes which should be evaluated with property management and with legal counsel. Overall, the maintenance of financial documents has never been easier with the ability to cut and paste emails, attach PDF files, maintain records through cloud storage and with mobile computing and communications. The only difference now is that the reminder of the etching of the chalkboard is drowned out by the clicking of keyboards. **CV**

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**Chris Antipas, R.C.M., ACCI, President and CEO**

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