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Property Management Companies or Owner's Management Companies (OMC's) as they are now referred to in the Multi-Unit Developments Act, 2011, known as 'MUD's Act' have many unique features that need to be taken into consideration by auditors. Typically OMC's are incorporated as public companies limited by guarantee, not having a share capital, and for that reason such companies cannot avail of audit exemption. Auditors must therefore design an audit approach that is compliant with the International Standards on Auditing (ISA's) but that is also appropriate to the unique circumstances of OMC's. Modifications are therefore required to the standard Audit Programmes when auditing OMC's.

OMC's that are incorporated as companies limited by guarantee must maintain a minimum of 7 members. In addition other factors to be considered include the inability of such entities from:

- Taking advantage of the exemption from filing full Financial Statements under section 8 of the Companies (Amendment) Act, 1986. This exemption is only available to certain small private companies limited by shares;

Auditing Property Management Companies

Following the recent Multi-Unit Developments Act, 2011, Deirdre Kiely advises on the key auditing issues to be considered when auditing property management companies.

- Availing of the exemption for small companies in FRS 1 from preparing a Cash Flow Statement and therefore an audited Cash Flow Statement must be included as part of the Financial Statements;
- Preparing Financial Statements using the Financial Reporting Standard for Smaller Entities 'FRSSE';
- Whether the annual management charge is sufficient to cover costs and contribute to the sinking fund;
- Whether the property, which is managed by the OMC, is in a serious state of disrepair;
- Whether the OMC is involved in any matter threatening litigation;

Where an OMC is incorporated as a private company limited by shares it may be possible for the company to take advantage of the items listed above.

In addition the audit report, for companies limited by guarantee, should be addressed to 'the members' and should exclude all references to the Company's net assets position in comparison to the share capital in line with Section 40 (1) Companies (Amendment) Act, 1983.

Key Auditing Issues for OMC's

Going Concern

Going Concern is of particular relevance when auditing in the current economic environment and the same applies when auditing an OMC. The auditor should therefore request and review:

- The Directors assessment of going concern;
- Board minutes for formal discussions of issues;
- The company's ability to meet its debts as they fall due, which should extend for a period of at least 12 months, from the date of signing the auditor report;
- The company's ability to collect outstanding management fees from defaulting members. The audit should assess the Memorandum and Articles of Association to determine what actions the OMC can take to recover outstanding debts;

Where there is concern over the OMC's ability to continue as a going concern, the auditor should review the disclosures in the Financial Statements and consider whether they are adequate. The auditors should then consider what audit report is appropriate.

Applicable Laws and Regulations

As with all companies the auditor must consider the applicable Laws and Regulations that the OMC is subject to. The audit planning memorandum should set out clearly those applicable Laws and Regulations which are quite extensive in the case of an OMC. It is an onerous obligation on the auditor to give due consideration to the implications of a breach of such Laws and Regulations. The auditor must therefore review all correspondence from regulatory authorities, inspection reports such as the most recent fire inspection report, health and safety report, insurance report (a number of insurance companies now require fire inspection and health and safety reports as part of the insurance renewal). Examples of the types of Laws and Regulations that an OMC can be subject to include:

- Companies Acts, 1963 to 2009
- Taxes Consolidation Acts, 1997
- Data Protection Act, 1988 and 2003
- ODCE Decision Notice D/2008/1
- Fire Services Act, 1981 and 2003
- Safety, Health and Welfare at Work Act, 2005 and Safety, Health and Welfare at Work (General Application)

- Regulations, 2007
- Residential Tenancies Act, 2004
- Planning and Development Act, 2000 to 2010
- Waste Management Act, 1996 and 1997
- Air Pollution Act, 1987 and Litter Pollution Act, 1997
- Disability Act, 2005
- Employment Law
- Landlord and Tenant (Amendment) Act, 1967 to 1994
- Landlord and Tenant (Ground Rents) Act, 2005
- Occupiers Liability Act, 1995
- Multi-Unit Developments Act, 2011

Using Service Organisations

It is common for an OMC to engage the services of a Property Management Agent to assist with the execution of some functions e.g. issuing and collection of management service charges, management of the common areas, organising the Annual General Meeting, insuring the property etc. This brings certain risks. It is important therefore that the auditor reviews the obligations and responsibilities in the contract/agreement between the OMC and the property management agent. The auditor will therefore require a clear understanding of the authority vested in the property management agent such as authorising and signing of payments, cashing receipts, engaging of suppliers, maintaining of books and records etc. The auditor will require full access to the books and records of the property management agent relevant to the OMC.

Adequacy of Insurance

The adequacy of insurance cover maintained by an OMC is of critical importance and this fact has been highlighted by the MUD's Act, 2011 which now requires the Annual Report to include a statement of the insured value of the multi-unit development, the amount of the insurance premium together with the name of the insurance company and summary of the principal risks covered.

Multi-Unit Developments Act, 2011

As outlined above the 2011 MUD's Act is one of the Law and Regulations that the auditor must consider. This is a very important piece of legislation for OMC's which introduces significant changes on how they are governed. The auditor will therefore need to assess compliance with this legislation which will necessitate incorporating additional questions into a modified audit programme which will include assessing whether:

- the common areas of the development have been transferred to the OMC prior to the sale of any residential unit. In the case of existing developments, in which units have sold, the common areas must be transferred to the OMC within six months of the commencement of the 2011 legislation;
- a fire safety certificate was provided by the developer to the OMC;
- the developer has entered into a contract with the OMC which sets out the rights and obligations of the parties including the completion by the developer of the development;

- the annual report of the OMC includes;
 - a statement of income and expenditure;
 - a statement of assets and liabilities;
 - where applicable, a statement of the sinking fund together with details of the amount of annual contribution to the fund and the basis on which it is calculated;
 - a statement of the annual service charge for the period of the report and the current period and the basis on which it is calculated;
 - a statement of any projected expenditure on refurbishment, improvements or maintenance of a non recurring nature;
 - a statement setting out the fire safety equipment installed in the development and the maintenance arrangements; and
 - a statement of any contracts entered into between the OMC, a Director or shadow Director or person connected with a Director or shadow Director.
- the proposed annual service charge was considered at the AGM together with an estimate of expenditure broken down into specific categories;
- the OMC has established a sinking fund for the purpose of discharging expenditure of a non recurring nature. Under the Act each owner must contribute €200 per annum to the sinking fund or such greater amount as may be agreed by the members. Funds collected under the sinking fund must be maintained in a separate bank account.



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