

Owners Corporations and Other Acts Amendment S34 and S35 – SCA (Vic) Determination

Within the amendment to the Owners Corporation Act, Section 34 has stipulated that annual financial statements for Tier 1-3 Owners Corporations are to prepare annual financial statements for presentation at the general meeting, in accordance with Australian Accounting Standards (AAS).

What does this mean to the Owners Corporations (OC) and OC management companies?

1. SCA (Vic) board of management has created a special task force to deal with this change to the Act. SCA (Vic) has entered into dialogue with the regulators in this regard and as such has formulated the following stance:-
 - i. Background. Within Australian Accounting Standards, the format of the report is either a General Purpose Financial Report (GPFR) or a Special Purpose Financial report (SPFR).
 - a) A GPFR under these standards has multiple parts to it, most of the forms are prescribed and this includes notes to financials, auditors disclaimers and notes and also relies heavily on the preparer of those reports and how they interpret the accounting standards.
 - b) The alternative SPFR has no prescription to it, the auditor in their audit process will acknowledge that the report is an SPFR thus warning the reader of the report of this fact. Currently within the Owners Corporation industry, most software used by management firms produces SPFR, containing balance sheet, two income statements and sometimes limited notes to the financials. Under Audit, these reports will normally include the auditors report.
 - ii. Within AAS, for an entity to determine if it requires a GPFR or a SPFR is subject to, if the entity is a reporting entity or not. Reporting entity must prepare GPFR, a non-reporting entity may choose which format. (definition of reporting entity can be found in Statement of Accounting Concepts (SAC1)).
2. SCA (Vic) 's position, after consultation with the regulators is as follows.
 - i. The OC is to determine if they are a reporting entity, thus there should be a minute at the annual general meeting for the OC to make this determination.

- ii. Under current AAS, a not for profit entity (NFP) may produce SPFR reports. The regulators have determined that OC's for this purpose, under AASB 102, are regarded as NFP. Within that, however the regulators maintain that it is for the OC to self-determine if they meet this definition. *Note, the definition of a NFP under AASB 102 is not the same as the definition of a NFP under taxation law. For the purpose of this debate, under communication from the regulators, the definition of AASB102 will be used.*
 - iii. If the Owners Corporation determines that they are a NFP, then using SPFR reporting is acceptable.
 - iv. The NFP and use of SPFR will be reviewed by the Australian Accounting Standards Board (AASB) in the future and SCA (Vic) will be monitoring this situation.
 - v. Thus for now, the only change is that the Owners Corporation needs to determine if it is a non-reporting entity.
3. Section 35 deals with audit and review.
- i. A tier one Owners Corporation must have the financial statements audited and the Act then lists who can do this.
 - ii. A tier two Owners Corporation must have the financial statements reviewed by an independent person, the Act stipulates who can perform this review. It may however resolve to have them audited instead.
 - iii. A tier three Owners Corporation may resolve to have either an audit or a review, it's a may not must.
 - iv. SCA (Vic) holds the view that the SPFR reports will be applicable under this scenario as well.
 - v. The change for OC's here is that a tier two does not have to have an audit performed but must have the financials subjected to a review by a registered person as stipulated in the Act.
 - a) What is the difference between an audit and a review? The standards for Audit are subject to Auditing standards. Under a review, the applicable audit and standards are of a lower standard, thus theoretically a review should be less onerous and costly.

4. Date of application of these changes. S209(1) and (2) determine that “these changes will apply only in relation to a financial year commencing on or after the commencement day”. Commencement day is 1 December 2021, thus for any OC who has a financial year starting December 2021, will have to comply for their year ending November 2022.

SCA (Vic) task force will continue to work with nominated accounting firms and the regulators in this regard and are intending to make representation to the AASB with the aim to have the OC industry categorised and quarantined into SPFR reporting.