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Simon Cohen

Director

Consumer Affairs Victoria

Via email cav.consultations@justice.vic.gov.au

Dear Mr Cohen,

RE: PROPOSED OWNERS CORPORATIONS REGULATIONS 2018

This submission is confined to one issue.

The issue is the proposed Regulation 7 requiring financial statements, of prescribed OCs, to be prepared in accordance with Australian Accounting Standards [AAS] made by the AAS Board [AASB].

We have previously raised our concerns, including specifically that all accounting software programs would require upgrading for the management of all OCs. All half dozen or so major software providers have estimated it will cost each of them a few hundred thousand dollars to implement. Then, all hundreds of strata management businesses will have to go through an upgrade process. Hence the RIS financial costs are significantly understated.

Though there has been some change around this proposal, we do not consider the currently proposed change 'minor'.

Strata managers managing prescribed OCs are neither already complying with AAS nor have the capacity to easily do so.

If AAS is implemented regardless, at least 12 months transitional arrangement time is necessary, because all accounting software providers will first have to amend their products.

If AAS is implemented regardless, then consider being more explicit in defining which subset of AAS is applicable, so the bar is not lifted by default to include all AAS applying. Consider whether that may be in the Regulations, or more appropriate as separate educational material.

Reiterating previous concerns

The proposed reform would be disastrous. It would introduce significant complications and issues, without achieving the desired policy outcome of improved governance.

There are currently no prescribed standards required.

The status quo should remain unchanged. That is, there should be no standards required.

OCs are a very different creature to other types of entities such as companies, incorporated associations, etc.

For example,

Assets – treat as an expense

AAS require assets purchased to be reported as Assets in the balance sheet and then depreciated over the life of the asset. Such a treatment is not appropriate for an Owners Corporation.

The Owners Corporation must account to its members for its income and all expenditure, regardless of whether the expense is capital by nature, resulting in the level of funds remaining. If an Owners Corporation pays $10,000 to purchase furniture and equipment for an on-site building manager, that money has gone and is no longer available to owners to spend. Owners Corporation accounting has traditionally expended the entire amount in the year of acquisition, but it is regularly queried by auditors and for this reason it has been included in the SCA (Vic) Accounting Practice Guideline that gives recommendations as to accounting treatment. Namely -

All expenditure, even capital expenditure, is to be reported in the income and expenditure statement. Assets should not be depreciated over time but reported in the year of purchase.

The negative impacts resulting from the application of AAS to OCs cannot be overstated.

It will actually reduce owners' understandability of financials presented.

It will significantly increase costs to owners going forward.

The applicability of AAS would be necessarily retrospective; creating the need to prepare prior period financials that are AAS compliant.

The cost of an OC audit/review under the AAS regime will also increase significantly.

Another complication is capital expenditure on improvements. For example, an OC may add a security gate and fence to the property, using OC funds, or even a special levy. This is capital expenditure (building improvement). Should it be capitalised? The fence forms part of common property so belongs to all owners as tenants in common, it is not an asset of the OC, despite OC funds being applied. This would be a nightmare for auditors and inexperienced managers.

There is another reason why change is not necessary, to do with maintenance plans/funds, and especially so since a separate proposed change is that maintenance plans/funds will now be required for Tier 1 and Tier 2 [ie any OC 10 lots or greater]. OCs already have a defacto form of positive asset depreciation by way of maintenance funds. For example, new carpet is installed throughout the building. A company or incorporated association would treat that as an asset and depreciate it over the life of the carpet (say 10 years). An OC would have identified that the carpet will last 10 years so saves 1/10th of its cost each year and pays for new carpet as an expense in the maintenance fund.

Yours faithfully,
Strata Community Australia (Vic) Inc

Rob Beck
General Manager