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YSP Podcast Transcript: Episode 087. What's so interesting about strata audits?
With Aylie Brutman

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Intro: Welcome to Your Strata Property. The podcast for property owners looking for reliable, accurate, and bite-sized information from an experienced and authoritative source. To access previous episodes and useful strata tips, go to www.yourstrataproperty.com.au.

Amanda Farmer: Hello and welcome. I'm Amanda Farmer, and this is Your Strata Property. Aylie Brutman has been involved in the strata sector for over 25 years. She is currently the director of strata and real estate services at Economos Chartered Accountants. Aylie is actively involved in the New South Wales strata community, and many of you will know her name and her face, if not her voice, working in national agencies. Aylie has broadened her skills over the years from accounting and administrative areas to focusing on training, compliance business operations and process improvement. Today, I am absolutely delighted to welcome Aylie Brutman of Economos. Welcome, Aylie.

Aylie Brutman: Thank you, Amanda.

Amanda Farmer: Lovely to have you. Now, I said 25 years, so that means that you must have started when you were about 12, so good on you, child prodigy of strata.

Aylie Brutman: Yes, I think I started about five. I usually tell the story that I was folding levy notices under the dining table. The family in the business, so you have no choice.

Amanda Farmer: I love it, yes. Tell me, so your dad was involved way back when. Tell me about that because that's really interesting.

Aylie Brutman: Yes, so back in, I think it was about 1980, they're writing the story of the history of strata at the moment. Before there was SCA, they were the Institute of Strata Title Management. He was on the founding board there, so it's a genetic passion that we have about keeping strata professional and making sure that people know what we do and differentiating us from real estate really.

Amanda Farmer: Yes, awesome. I love hearing about when people are looking into that history of strata and strata in New South Wales, who the personalities were, who the founding fathers. There were a few women in there too.

Aylie Brutman: Yes.

Amanda Farmer: I'd be really interested in that book when it comes out. Make sure you let us know about that.

Aylie Brutman: Yes. I think SCA's got someone writing. I think it's about 2020, they should get it out. Everyone's pulling out their old photos at the moment.

Amanda Farmer: Oh, oh.

Aylie Brutman: The founding fathers, yes.

Amanda Farmer: Those will be a bit scary.

Aylie Brutman: They are.

Amanda Farmer: I'm looking forward to it. All right. Now, we're here today to have a chat about audits, and the framework here, Aylie, is let's make audits sexy. Can you do that for me?



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Aylie Brutman: That's a challenge.

Amanda Farmer: Strata audits

Aylie Brutman: I can give it a go.

Amanda Farmer: Now, we now have this concept of mandatory audits under the new Strata Schemes Management Act here in New South Wales. Can you tell us a bit about what that means?

Aylie Brutman: We've always had the mandatory audits for the large schemes, which most people who live in a large scheme, 100 units or more, would know about. That's always been just making sure that an independent third-party is having a look at those financials, making sure everything's okay. Now, the spirit of the legislation is the way I like to refer to it, is they're trying to say anyone that's handling or dealing with a lot of money, and a lot of money is defined with their number in the legislation in the rigs.

Anyone who's dealing with a lot of money should have someone else checking that. The way the mandatory calculation works is the simple way of calculating it is however much money you have at the beginning of the year in your bank account plus your levy is raised plus any other income you might receive.

If that's \$250,000 or more, then, you have to have an audit. Some buildings out there have half a million dollars, and they kept the work's funds. You don't even need to think about that. You know you need to have an audit. It's really just making sure that an independent of eyes are looking at not only the way the money is handled but the processes that the manager is undertaking. Make sure that everything is actually running properly in the building.

Amanda Farmer: Do you find in your day-to-day experience, Aylie, and I'm not sure if you're directly involved with audits at Economos or not, buildings having audits carried out even though they may not be required to under the legislation, and they're doing that as a matter of best practice anyway?

Aylie Brutman: Yes, yes. I mean I think that generally, it comes from the managers themselves. Some strata managers will always encourage anyone with about 12 units or more to have an audit because the smaller buildings, in reality, we know anyone that's carrying out audits, if it's a small building, there's not actually a lot to look at, but it's just giving the owners the reassurance that everything is okay. Also, a lot of people spending millions of dollars on apartments now. It's not like they're certainly not the second class living, but some people used to think they were 50 years ago or 40 years ago. People are spending a very large amount of money on these properties, and they're not really protecting their investment. Even just to say if it's \$50 a year and owner has to contribute, you know, you're talking a four, 500-dollar order.

Amanda Farmer: Yes, yes. They're not expensive.

Aylie Brutman: It's just making sure that everything's okay. That's right. When people are doing strata inspections, they're often looking to see, "Has this building been audited," even if they're not doing it every year. Maybe a building might elect to say, "Okay, every two years, we'll have an independent auditor come in and look at it."

Amanda Farmer: Yes, and good protection for the strata manager themselves, I would think. Then, even though it might not be required to you, recommending this audit, having it carried out. If you do get some disgruntled, perhaps, lot owner or committee member who thinks maybe their funds haven't been spent the way they should have been or were told they were going to be.

Then, the strata manager has the protection of that audit. I think for that reason, that's a good idea also.

Aylie Brutman: Absolutely. I think strata managers have their expertise in strata management, in people management, in running meetings, but strata managers can't be everything to everyone. Not every firm has a CPA employed and has a qualified accountant. Not that you need to have a qualified accountant to be looking after day-to-day strata work but just to have somebody

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external who is actually a specialist in that area once a year or once every second year if they don't need to have them. It gives more reassurance to the owners as well as to the manager and to the committee. Not every committee is that heavily involved. They don't necessarily know what they need to ask and that means they could feel a little bit more comfortable when they're going to the AGM and presenting the account.

Amanda Farmer: Yes, absolutely. Now, I will put a link to that relevant section of the act that you were talking about there, Aylie, so the buildings who are interested in that definition of whether or not they should be getting a mandatory audit can click through and have a look at that.

Aylie Brutman: Yes.

Amanda Farmer: Now, what does a strata auditor actually do? What are they looking at? What do they produce for their 500 bucks?

Aylie Brutman: Okay, so what has to be done in an audit and what can be done in an audit, two quite varying things. The minimum requirement is somebody is going to go to the minutes. They're going to check that, first of all, they're supposed to do the audit. They're going to make sure the manager has been appointed. They're going to check the agreement. They're going to make sure the levies have been raised in accordance with the meeting. They'll also look through the expenses. Now, no auditor in the strata world checks every invoice. That's not what they're for. It's not a matter of looking for fraud either because, at the end of the day, you can't follow money all the way down the line.

What an auditor is typically looking for is best practice, best handling of those funds. We also give a second look to make sure that the funds that have been spent out of admin funds are administrative costs. They shouldn't be coming out of the capital works funds. We check contracts as well, so when we're doing it, we'll go in. We'll get a copy of the capital works fund assessment. We'll make sure that those levies are being raised or at least suggested to the owners at the right level. It's not a matter of qualifying an audit report. It's a matter of making sure that the building's running the best way that it can.

As I said, if there's a contract that's coming up, sometimes, the manager can just miss something. They're just human. They don't have 100% systems. Nobody really does, so we look at insurance claims, make sure there haven't been any long ones outstanding and just make sure that just another set of eyes, as I said that's outside of the existing management.

Amanda Farmer: That's good to know. I didn't actually realize that you guys were going to that depth when you're looking at the records, looking at contracts and insurance claims and things like that. Interesting.

Aylie Brutman: Yes, yes. I mean there are very large scope of audits you can do. In a very small building, you're not really going to have many contracts. At the moment, we're doing some interesting large buildings, so the brand new buildings, first year out. They're in the BMC. Where I want to start looking at those building management committees and mix-used buildings, they really get quite interesting. I know people don't think audits are very interesting, but they really can be, you know? At least you have a look at the management statements, and so we're also doing those sorts of things and making sure the funds are being spent properly.

Amanda Farmer: Yes. Can you share any interesting stories? Anything you might have come across in an audit or your colleagues have come across that was a big unusual or out there.

Aylie Brutman: I wouldn't say ... Well, unusual in the fact that I'm always quite entertained, I guess when you see some of the costs that some people think that they should be claiming.

Amanda Farmer: Oh, yes.

Aylie Brutman: There were some committees, and without a doubt, we know a building cannot run effectively without a good



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committee, but I'm thinking once an honorarium is a greater fee than those being paid to anyone else including to a manager, but if owners pass it, then, it's the owner's prerogative. We understand that, but it's an unusual one that I don't see a lot of. When I do see honorariums, I'm always interested to talk to the manager and say, "Well, what are they doing for their honorarium?" Often, it's the manager not doing much except keeping records. They've basically had very little delegation.

Amanda Farmer: They've shifted a lot of that. I suppose I should say they've engaged the manager, perhaps, to do the bare minimum. They're happy doing the grunt work. Fair enough.

Aylie Brutman: Yes, and when there are major works, sometimes, there's an engineer that's on the committee. That engineer says, "I can do this job." Everyone's happy with it in large amounts, but it's all about board.

Amanda Farmer: Yes, true.

Aylie Brutman: Sometimes, it's just a bit surprising because it just doesn't happen every day.

Amanda Farmer: Yes, exactly, and a lot of buildings forget that they do have that option to resolve, to pay an honorarium to their committee members. Perhaps if more people realized that, that was a possibility, you might get some more hands going up at the meeting to join the committee.

Aylie Brutman: That's right. As long as the most difficult committees are. You don't want an ex-strata manager as your chairman. You don't want an accountant as your treasurer.

Amanda Farmer: Lawyer. You don't want a strata lawyer, retired judge.

Aylie Brutman: You don't want a lawyer there. That's right. All these people.

Amanda Farmer: Stay away.

Aylie Brutman: Yes.

Amanda Farmer: Now, what are some common audit problems that you've noticed people face when it comes to this issue in strata? What's worked in terms of overcoming those problems?

Aylie Brutman: I think the easiest things to overcome are the ones that I actually see most often, which is offices that don't have documented internal processes for what they do, for example, at the end of every month. We'll go in, and we'll do an audit. We'll say, "We need these required documents," and some of the documents are very basic documents, but they haven't been routinely saving them either in their document management system or even filing them manually. They're not able to get us those documentations.

Amanda Farmer: Just to be clear, this is the strata management company that's not filing this material.

Aylie Brutman: That's right, yes, that's right. They have access to generating reports. Things like a bank reconciliation at the end of every month is a very boring straightforward report that every software system on the planet generates, but a lot of people don't know that "Oh, I should be saving one of those." Sometimes, people just are having to go back and look at their processes for every building, as opposed to an individual issue, you know? I think managers generally are careful when they're looking after trust accounts because they know that trust account, by definition, they are being trusted to hold onto someone else's money. They are being careful when they're allocating it. They're looking for approval from the committee for large amounts, but it's the internal day-to-day things that they seem to forget about because they're so engrossed in the management of the building itself. Sometimes, they leave the business behind.



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Amanda Farmer: Yes, it's interesting. It comes up quite a bit on the podcast and questions that members inside my online forum ask regularly about accessing documents that their strata manager holds or should hold, attempting to access those documents and finding that they're not there or they're not in the right place, so they can't be found. It's a real concern. I hadn't really considered it from the audit perspective, but that's pretty serious. If you're conducting an audit, you want to be able to trace this transaction and find out why money's being spent and where it has been, and you can't get that document from the strata manager.

Aylie Brutman: Yes, that's right, but the good news is there's always somewhere else to go for it. Audit is about validation against third party information as well, so if we need information, you can always go to a bank. If we don't have an invoice, sometimes, invoices go astray. They've been paid. They're very legitimate invoices, so we go to the contractor, and they're able to give them to us. It's not that the strata manager creates the information. It's just sometimes, they're not great at hiding it. In regard to accessing documents, I think that a lot of managers are getting really good at sharing that information now. A lot of people have these portals, and whether it's financial information that people can get or whether it's copies of the by-laws, certificates of title, anything like that, a lot of people now have access to that. I think it's getting better and better.

In my previous life, I was back in the software world, and it was always astounding to me how few managers actually use live portals. Other people that I know have spoken on the podcast from a software background have mentioned that. It's been a good 10 years that portals have been around, and you've probably still not even had 50% of agencies that are using it. I always say it's for the owners to ask, you know?

Amanda Farmer: Yes.

Aylie Brutman: I'm an owner, and I consistently will say, "Ask my manager for access to the portal," and they were actually a client of mine. Eventually, they launched the portals, and now, they get less questions for me and everybody else.

Amanda Farmer: Yes, that's great.

Aylie Brutman: Once they're past the fear-

Amanda Farmer: Yes, of change.

Aylie Brutman: Sometimes, it's a bit of fear that's of change, and what happens if there's a problem? It's okay because we're all human, and everything gets picked up, and it's okay.

Amanda Farmer: Yes, and I do see that as well. The market driving the change, owners becoming increasingly well-educated, being able to jump on Google and find that information. The kind of information that we have on the podcast and on the websites that we have, and then, in turn, educating their strata managers and saying, "Look, hey, this is an opportunity that's out here. An option to increase value in our building to improve the way we do things. I'd really like you to implement that," and strata managers taking that up and saying, "Well, I want to keep working with this building, and buildings like this, then, it's time to start embracing these technologies," which is great.

Aylie Brutman: Absolutely, yes.

Amanda Farmer: Now, some quick wins, Aylie. We like to talk about this on the podcast. What can our listeners do to perhaps improve their experience of auditing or to make your job easier when it comes to audit time? What kind of things should they be doing or perhaps their strata managers be doing to help smooth that process?

Aylie Brutman: Well, I always say from an owner's perspective, I always say get involved. If you're on the committee, and you're being sent six-monthly a set of accounts, have a look at them. Don't wait until the AGM. If you have a query, you can ask. If you have access to online accounts, just review them every so often. Then, it's not such a surprise because they're not complicated. I know a lot of people get afraid of accounts. They say, "Oh, but I don't understand the balance sheet." You don't have to

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understand where it came from, but you know that when it says you've got this much cash or you owe people this much money, you know what that means fundamentally. I'd always say get involved as an owner, even if you're not on the committee. Show an active interest in your building and in their financials. Don't be afraid to ask. Don't wait until the AGM to ask the question because the manager needs to prepare the answer. They don't know everything about your building in their head.

A lot of people will put on their agendas, "Please send through queries within 48 hours prior to the meeting." They do that because they want to have the answer for you, not because ... They're not trying to be difficult. They just want to be more prepared. The more notice you give them, the easier it's going to be for them.

Amanda Farmer: Yes, absolutely.

Aylie Brutman: As far as the managers are concerned is I think just ... I'm a bit obsessive about process, and anyone that's ever worked with me knows that I've always got a process document that will always refer back to an infographic that I have that explains what I do. From a manager's point of view, look at what you're doing every day and review things. Don't just let things go and go and go. If you're having ... A lot of people have different auditors come into their company. People don't necessarily just use one audit firm. Listen to other people that are coming in. Strata searchers give a lot of information back to managers. They often will tell you maybe where things aren't as easy to find. Don't take it as criticism is what I will say. Nobody can work it all out themselves. Take that feedback and just maybe review some internal processes you're having. Make sure you're saving all the key documents you need to save. We've just finished the round of statutory auditing, which we do in New South Wales as part of their licensing.

Everybody has to have a statutory audit. The number of people that just don't have the monthly sign-offs and ... Well, they have them, but one month is saved in one place, and one month is saved in another. Just consider it now.

Amanda Farmer: Yes, is that statutory auditing under the property stock and business agents act for licensed agents? Is that what that's about?

Aylie Brutman: Yes, that's correct. In the past, you used to have to do it with fair trading. Now, it's a matter of it has to be done, but only if there's an issue when a qualification doesn't actually have to be lodged with fair trading. Obviously, everyone still has to have it done.

Amanda Farmer: Yes, similar to lawyers, I suppose.

Aylie Brutman: Yes.

Amanda Farmer: We have the trust account inspection every year and gets reported off to the law societies to look at all of our trust funds and making sure that they're all above board, so that's reassuring for a lot of owners to know that, that's happening.

Aylie Brutman: Exactly, exactly.

Amanda Farmer: Excellent. Now, Aylie, I usually ask a question about the book that's had the greatest impact on you. Do you have something coming to mind?

Aylie Brutman: Okay, so I've got one that's just straight out of university. That is the Wealth of Nations when I studied economics at uni, Adam Smith, phenomenal writer, phenomenal economist. That was probably one of my first books that I read. It's probably in the year '11 before I went off to uni then. I love it. I've still got it on my shelf, and my children think it's hysterical because I don't appear to be much of an accountant or an economist, but I am.

Amanda Farmer: That's [crosstalk 00:19:37].

Aylie Brutman: I am. I just don't look that way, but the other one because I don't have a lot of patience, but I love good books, is

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Animal Farm. Animal Farm for me is it's every environment and everyone that I know. You could always look at it and say, "I know which character is which person in," you know.

Amanda Farmer: I love it.

Aylie Brutman: George Orwell is quite an amazing man.

Amanda Farmer: Yes, indeed. Oh, well, I'm going to be at the next SCA conference or any other strata conference that we attend. I'm going to go stand with you, and you can point out the characters for me.

Aylie Brutman: Yes, that's right. It's a little bit more interesting than the Wealth of Nations, but so be it.

Amanda Farmer: Good on you. All right, Aylie, now before we wrap, how do our listeners find out more about you? Is there anything else you want to add?

Aylie Brutman: Okay, so I don't think I have much else to add, but they can certainly find me in the usual places. Our website, I'm sure the link will be on the podcast, is www.economos.com.au. I'm also on LinkedIn, so anyone can find me there, just Aylie Brutman. My link can be up there as well. Otherwise, at any strata event ever, I should be there.

Amanda Farmer: You are, and we love you.

Aylie Brutman: Absolutely. I love it too.

Amanda Farmer: Thank you so much for taking the time out to chat with us today, Aylie. We will definitely have you back. You have so much knowledge from all of your experience in the sector. We always look forward to what you're doing next. Yes, we'd love to hear from you again.

Aylie Brutman: Great, look forward to it. Thank you.

Amanda Farmer: Thanks.

Outro: Thank you for listening to You Strata Property, the podcast which consistently delivers to property owners, reliable and accurate information about their strata property. You can access all the information below this episode via the show notes at www.yourstrataproperty.com.au. You can also ask questions in the comments section, which Amanda will answer in her upcoming episodes. How can Amanda help you today?