

**STBB’s REFERENCE GUIDE TO THE SECTIONAL TITLES SCHEMES MANAGEMENT ACT
For Managing Agents, Trustees, Owners and Property Practitioners**

In this, the forty-seventh set of notes for your STSMA Reference Guide, Prescribed Management Rule 26 is discussed.

	<u>PRESCRIBED MANAGEMENT RULE 26 – FINANCIAL MANAGEMENT – FINANCIAL RECORDS, BUDGETS, REPORTS AND AUDIT</u>	<u>REFERENCES & SEARCH WORDS</u>
PMR 26	<p>This is the last of the Management Rules that deal with financial management.</p> <p>PMR 21 dealt with the financial year and the general functions and powers of the body corporate in this regard; PMR 22 dealt with the maintenance, repair and replacement plan; PMR 23 with insurance; PMR 24 with the administrative and reserve funds and PMR 25 with the contributions and charges to be collected from body corporate members.</p> <p>PMR 26 deals with financial records and budgets, many of which are requirements for the Annual General Meeting (AGM) and other which relate to daily accounting.</p>	
PMR 26(1)(a)	<p>The body corporate must keep proper books of accounts recording all its income, expenditure and liabilities.</p> <p>The books must also disclose all amounts recovered from members, whether by the body corporate or a managing agent (or other service provider acting on the latter’s behalf).</p> <p>It is further necessary that the books include individual accounts for each member. Because the Rule here refers to “member” it means that even if someone is the owner of 3 units in a scheme, only one individual account is necessary for that owner. (This is because although the person is the owner of three units, he is one member of the body corporate, not three.)</p>	<p>Details to be included in the body corporate’s books of account</p>

Importantly, the books must contain all other information necessary to allow members to assess the body corporate's financial situation and the members' financial situation in regard to the body corporate. This facilitates enquiries from owners into the financial well-being of the body corporate and its financial administration.

PMR 26(1)(b)

It is further necessary that separate books of account are kept for the obligatory administrative and reserve funds. See [PMR 24](#).

Separate accounting for administrative and reserve funds

PMR 26(1)(c)

The body corporate is obliged to prepare annual financial statements for presentation at the AGM (see also [PMR 17](#)). These statements must include analyses of-

Obligation to provide annual financial statements

- (i) all levies and charges due to the body corporate, per member, and the periods for which such amounts were owing;
- (ii) all amounts owing to creditors of the body corporate. Any amounts owing to a public authority, local municipality or other entity for services (such as water, electricity, gas, sewerage and refuse removal) must be given prominence.
- (iii) all loans that the body corporate has entered into (such as levy finance, a guarantee insurance policy or otherwise). The actual or contingent liability must be reflected as well as the amounts paid by the body corporate and by any member in terms of such arrangement;
- (iv) the amounts in the reserve fund showing the amount available for maintenance, repair and replacement of each major capital item as a percentage of the accrued estimated cost and the rand value of any shortfall;
- (v) premiums and other amounts paid and payments received by the body corporate and any member in terms of the insurance policies and the expiry date of each

Content of annual financial statements

policy; and

(vi) amounts due and payable to the Community Schemes Ombud Service

PMR 26(1)(d)	The Maintenance, Repair and Replacement Plan must be presented at the AGM, in accordance with the requirements of PMR 22 . (Insert hyperlink at 'PMR 22' -	Requirements to present 10-year maintenance plan at AGM
PMR 26(1)(e)	Another financial duty of the body corporate is to prepare budgets for both the administrative and reserve funds for presentation at the AGM. Such budgets may include discounts (up to a maximum of 10% of a member's annual levies) for payment if the owner pays his levies on or before the due dates.	Budgets to make up administrative and reserve funds at AGM Allowable discount
PMR 26(1)(f)	The body corporate must in addition prepare a report adopted by the trustees reviewing the affairs of the body corporate during the financial year for presentation at the AGM.	Yearly report of affairs to be presented at the AGM
PMR 26(2)	The books of account must be made available for inspection and copying on request from an owner, bondholder or managing agent.	Rights of inspection of books of account
PMR 26(3)	The books of account and financial records must be retained for 6 years after completion of the transactions or actions to which they relate.	Period for which books of account to be retained

PMR 26(4)

Unless all the sections in the scheme are registered in the name of one person, the body corporate must present audited financial statements to a general meeting for consideration within four months after the end of the financial year.

Requirement to present audited financial statements

PMR 26(5)

The audit of the books must comply with certain criteria which are listed in PMR 26(5). This includes the requirement that the audit:

Criteria for audit of books of account

- a) must be carried out by an independent auditor who has not participated in the preparation of the annual financial statements or advised on any aspect of the accounts of the body corporate during the period being reported on;
- b) need not be carried out in accordance with any recognized financial reporting framework of guidelines for financial accounting;
- c) must include opinions as to whether or not-
 - (i) the annual financial statements accurately reflect the financial position of the body corporate for the financial year under review, with such qualifications and reservations as the auditor considers necessary;
 - (ii) the body corporate has complied with the accounting requirements set out in PMR 21, 24 and this rule 26 and, where not, a description of the non-compliance;
 - (iii) the books have been kept and the funds managed to provide a reasonable level of protection against theft or fraud; and
 - (iv) the financial affairs of the body corporate appear to be effectively managed
- d) must be completed within four months of the end of the body corporate's financial year.

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