Traditionally, committees have focused well on budgets and financial planning. Sometimes this is to the detriment of other aspects of the management of strata communities. Other times the focus is on reducing fees and levies rather than budgeting for appropriate expenditure. Seldom, if at all do committees focus on financial control.

The budgeting process typically happens in the last quarter of the financial year prior to the AGM. Last years accounts are taken as the base and some rudimentary calculations are applied to increase the sums thought to have increased over the year.

Budgeting for administrative expenses is not hard. It is budgeting for capital items that presents more challenging items and test the strength of the committee. Most agree that it is fair and reasonable that owners of the day should save annually for the repair and replacement of capital items. However, not all committees back this up with adequate savings.

A budget for capital items should be reviewed annually using a quantity surveyors report about the cost and useful life of all capital items. Simplistically, if a fence costs $10,000 to replace and has a life of 10 years, then $1,000 should be put away each year to replace the fence. This should be reviewed annually to take account of inflation so that if suddenly the cost of timber rises and the total replacement cost will be more then $10,000 a catch up payment will be made and future contributions will be increased accordingly.

Strata communities that work on this premise will have adequate funds to pay for repairs and replacements as required, will avoid the trauma of one-off special levies and will find their apartments attractive to purchasers because of a healthy reserve account.

In terms of monitoring the expenditure of funds, again, strata communities usually perform this function quite well. Usually accounts are monitored monthly or quarterly to ensure that spending is in line with the budget.

An area that requires more attention is precautionary financial control procedures. Most strata communities entrust their administrative and sinking funds to strata managers with little or no investigation into how the strata manager handles financial control internally. Three principles underpin good financial control within a strata management company:
Segregation of duties - dividing duties between individuals increases the degree of protection against fraud, error or oversights. For example, if one person records incoming cash and another checks bank statements, it becomes easier to detect dishonesty. Segregation of duties is one of the fundamentals of tenets of robust control. Smaller organisations are disadvantaged in this regard;

• Qualification of staff and advisors – the committee should ensure that the strata managers are competent and properly trained; and

• External audit – some committees are legislatively forced to have audits prepared annually, others have a discretion. More often than not those with discretion choose not to have externally audits performed. This practice is to be discouraged. If costs are an issue, then perhaps an audit every three years could be considered.

Next week: Funding Major Works