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Things that make your skin crawl...?

By Karen Reynolds & Jeff Lack, Co-Editors

The WB Condo Connection is a newsletter intended to highlight Ontario condominium related articles and educational items that may be of interest to Boards of Directors and condo owners.

This edition will highlight two issues that may make your skin crawl – bed bugs and recent changes to audit rules in Canada (OK, I used to be an auditor so I can poke a little bit of fun...).

Our newsletter is published online and available on our website (www.wilsonblanchard.com) as well as in hard copy format to each of the

Bed Bugs!

By Karen Reynolds, ACCI, FCCI, R.C.M., A.I.H.M.
Director of Property Management

What could possibly be worse to deal with as a member of the board than a mysterious water leak into a unit where the source just cannot be located? If you are following articles and stories recently reported in the media, you will know the answer is “bedbugs.” So why would a unit infested with bedbugs be a problem to the Board of Directors? Simple, once a unit has become infested, if not treated, how long will it be before other units are affected or worse, your common elements?

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members of our Boards of Directors.

As always, we hope you enjoy this edition and we welcome your comments. Please direct any comments, suggestions or article topic requests by email to newsletter.editor@wilsonblanchard.com or by mail to:

Editor – WB Condo Connection
101-701 Main Street West
Hamilton, ON, L8S 1A2



Imagine this scenario. A homeowner returns from vacation unknowingly carrying bed bugs in their luggage. They employ a cleaning company to clean their home and one week later the cleaning staff enter the home to clean using their own vacuums, mops and dusters. This same company is employed by the condominium and the same

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staff visit your building the next day to clean the common areas or they could be employed by a unit owner and visit a unit to clean. In their equipment, they now are unknowingly transporting the bed bugs to your building or townhouse complex.

It is important to educate yourselves and then pass the information onto your residents and assure them that in the event their unit becomes infested, it is nothing to be ashamed of as it in no way indicates the unit is not clean or that their housekeeping habits are not sufficient. It just means they are human and can provide a source of nourishment to these little nuisances. Bed bugs are completely impartial and are happy to inhabit any dwelling where a food source is evident!

Bedbugs are insects that, as adults, are approximately 1/4 inch long and have an oval body with no wings. Prior to feeding, their bodies are flat but after a feed the body turns dark red in colour and becomes bloated. Adults prefer to feed on human blood but will also bite other mammals and birds. They feed at night and will bite all over the human body particularly around the face, neck, upper torso, arms and hands. Both male and female bugs will bite and

either can survive several months without feeding. An average bed bug may survive several months to a year. Their eggs are whitish in colour, pear shaped and about the size of the head of a pin. When laid, the eggs have a sticky coating and can be found in clusters in cracks and crevices and, are you ready for this . . . during her one year life span a female can lay between 200 and 400 eggs which will hatch every six to seventeen days. Bed bugs will migrate from unit to unit via pipes or electrical wiring.

As inferred in the scenario presented above, bedbugs enter dwellings on objects, clothing, equipment, furniture, luggage, etc. Once introduced into an environment they will inhabit the seams, creases, and folds of mattresses, box springs or curtains, any cracks in bedframes or plaster, in electrical appliances such as clocks, radios or telephones, behind baseboards, or any other small enclosed space. Adults may be evident in these areas indicated by black and/or brown spots on mattresses or sheets, bedframes or walls or shells from dead or moulting bugs might be found.

Educating owners is the first step in combating these pests and part of that education should definitely include ensuring they provide notification to the board should their unit become affected. When residents report an infestation they should be encouraged to have the unit inspected and treated by a professional company rather than

“During her one year life span a female can lay between 200 and 400 eggs which will hatch every six to seventeen days”

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attempting to rid the problem themselves. The process can be quite costly and is not a corporation responsibility unless common areas are involved however to ensure adequate treatment the corporation may wish to work with the unit owner throughout the process which could involve several attempts to remove the pests. It is not necessary to single out any specific unit however, other owners/residents should be notified that bed bugs are evident within the corporation and that they should be taking precautions. Until the unit or common areas have been treated and pronounced “clean” disclosure should be made in any status certificate issued for an affected unit or if common areas are involved a notation made in that respect as well. Boards are well advised to obtain advice from their legal experts with respect to appropriate wording.

If residents are properly educated you will reduce the risk of additional units being affected. Information could include ways of preventing bed bugs from infesting a home such as vacuuming mattresses regularly, picking up clutter to reduce places where bed bugs might inhabit, discarding vacuum bags instead of reusing them, resisting the introduction of used items into the home unless they have been thoroughly inspected or the occupant is familiar with the environment articles came from and if traveling, thoroughly inspecting any hotel rooms upon arrival including the mattress and keeping luggage up off of the floor. Residents could also be schooled in where to look for evidence and what signs indicate the presence of bugs.

Hopefully sharing information with residents and encouraging them to inspect their living areas and report any suspicious findings will reduce or even possibly eliminate any infestations in your



corporation. However, should a corporation encounter a difficult owner who refuses to cooperate, you, as members of the board, do have the authority through the Act and/or your documents to enter the unit, upon provision of reasonable notice, and address any infestation found within and any charges incurred can be charged back to the unit owner.

We know this problem is real as we have experienced infestations in a few of the units we manage. Take it seriously, educate yourselves and then educate your owners because the sooner a problem is discovered and treated the less chance there will be of a major infestation.

Welcome!

Wilson, Blanchard Management would like to welcome our newest managed properties:

- Waterloo North Condo. Corp. #16
- Halton Condo. Corp. #261
- Halton Condo. Corp. #268
- Halton Condo. Corp. #280
- Halton Condo. Corp. #292
- Halton Condo. Corp. #302
- Wentworth Condo. Corp. #234
- Wentworth Standard Condo. Corp. #429
- York Condo. Corp. #348

Changes to Canadian Auditing Standards

By Jeff lack, BAcc, CGA
Accounting Supervisor

Boards of Directors will notice, and should be aware of, recent changes to Auditing Standards in Canada that will affect the financial audit of their condominium corporation. These changes take effect for all year-ends ending after December 14, 2010. In short, the old Generally Accepted Auditing Standards (GAAS) are being replaced by new Canadian Auditing Standards (CAS's) which comply with the International Standards on Auditing (ISA's) in order to meet the global trend of moving towards one auditing system for all countries.

However, since your condominium corporation is not a global or international company, you're likely wondering what any of this has to do with you. In order to create consistency, the new CAS's are mandatory for all audits, regardless of size or corporate structure, and auditors are required to comply with the new rules. As such, there are some changes that you should be aware of.

"Shall" vs. "Should"

The audit requirements under GAAS provided auditors with the ability to exercise professional judgment when performing audit tests by incorporating the word "should" into the requirements. For example, an auditor "should" perform a specific test for a specific item, such as obtaining a bank confirmation. However, if the auditor, using his / her professional judgment, deemed that the test (i.e. a bank confirmation) was not required, or that their other audit work was sufficient to obtain necessary audit evidence, they did not have to perform that test - the standards only suggested that they "should".

The new CAS's (based on the ISA's) remove much of that professional judgment by replacing the word "should" with the word "shall". In such instances, the auditor will now be required to perform such tests, regardless of their professional opinion, as they would not be in compliance with the standards if they did not complete the requirement that specifies that they "shall" perform such testing to obtain specific audit evidence.

Bottom Line: *Additional required audit work may result in a higher audit fee.*

Specific Changes that Boards will Notice

Board members who are familiar with the old standards and audit process will notice the following changes (and additions) to the new Canadian Auditing Standards.

1. Agreeing to Terms of the Audit Engagement

The Engagement Letter that has always been used by auditors will have some minor changes to it to distinguish and clarify the roles of management and the Board of Directors. However, the more significant change is the requirement that the Engagement Letter be signed by the Board and returned to the auditor prior to the auditor commencing the audit work.

Bottom Line: *If a Board holds or does not sign the Engagement Letter, the audit can't begin and an AGM can not be scheduled.*

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2. Communication with Those Charged With Governance

This standard now requires that the auditor follow several specific procedures for communicating directly with the Board of Directors. Where in the past much of the communication may have been done indirectly through the property manager, the auditor must now establish a two-way communications process directly with the Board. As such, designated Board members can expect to receive an email and / or phone call directly from the auditor to discuss the audit process. In this context, the auditor may also be asking more direct questions to the Board members, either verbally or in writing, including questions related to the Boards responsibilities and governance of the corporation and / or inquiries relating to significant matters such as the potential for fraud.

Bottom Line: *Under the new standards, these procedures and questions are now required and will become standard so don't be surprised by them - they should be expected.*

3. Initial Audit Engagements - Opening Balances

Under the old rules (GAAS), when an auditor obtained a new client, he / she was able to use and rely on the opening financial statement balances provided that the client had an audit done in the previous year. Within Canada, it is taken as a given that all auditors are properly trained and governed, and as such the previous audit opinion can be relied upon. With the move to CAS's (based on International Standards) this assumption regarding auditors training and governance is no longer valid as the new standards must now consider auditors from other

countries. The result is that auditors must now obtain their own audit evidence to verify the opening balances of new clients rather than relying on the figures of the previous auditor.

Bottom Line: *When switching auditors, additional first year "set-up" costs may be incurred as a result of the new, additional work that auditors must now perform for new clients.*

4. Subsequent Events

Auditors are required to report all subsequent events (events occurring after the year end) that might materially affect the financial statements. For example, a major contract that is entered into after the year end should be disclosed. This requirement has not changed under the new rules.

What has changed however is the timeframe that auditors must consider for subsequent events. The auditor is required to cover all events up to the date of the financial statements. Under the previous standards, the financial statement date was the day that the auditor substantially completed their audit work. Under the new rules, the financial statement date must be the date that the Board of Directors approves the audit.

For example, in the past, if a corporation had a December 31 year-end and the auditor completed the audit on February 20 the audit report would be dated February 20. The auditor would be responsible to report any material subsequent events up to February 20.

Under the new rules, if the Board of Directors does not get around to approving the audited financial statements until April 4, the auditor must date the audit report April 4 and complete additional subsequent events testing up to April 4 (which, if

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there is a material event, may change the audit, requiring a new approval date which would require additional subsequent event testing). As you can see, there is a bit of a catch-22 here.

Bottom Line: *Reviewing and approving the audit in a timely manner will ensure that additional follow-up work and subsequent event testing is minimized and the AGM can be scheduled appropriately.*

While this does not cover all of the changes relating to the new Canadian Auditing Standards, it does address some of the more significant changes that Boards of Directors should be

aware of. You may also notice some other minor items, such as Boards now being required to approve the year-end audit journal entries and additional details that have been added to the standard audit report.

If you have additional questions or concerns regarding these changes, we would encourage you to speak directly to your corporation's auditor as he / she will be familiar with the new standards being used. We especially encourage you to contact your auditor and your property manager if your year-end date is after December 14, 2010 and you notice that any of the above procedures have not been implemented by your auditor.



101-701 Main Street West
Hamilton, ON
L8S 1A2

Phone:

905-540-8800

Fax:

905-540-4450

Email:

info@wilsonblanchard.com

206-16 Four Seasons Place
Toronto, ON
M9B 6E5

Phone:

416-642-2807

Fax:

416-642-2810

Email:

toinfo@wilsonblanchard.com

15A-842 Victoria Street North
Kitchener, ON
N2B 3C1

Phone:

519-743-7667

Fax:

519-571-5083

Email:

kwinfo@wilsonblanchard.com

Newsletter Editor Email:

newsletter.editor@wilsonblanchard.com

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www.wilsonblanchard.com