

Risk in the South African Sectional Title Industry: An Assurance Perspective

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Abstract : The sectional title industry has been a part of the property landscape in South Africa for almost half a century, and plays a significant role in addressing the housing problem in the country. Stakeholders such as owners and investors in sectional title property are in most cases not directly involved in the management thereof, and place reliance on the audited annual financial statements of bodies corporate for decision-making purposes. Although the industry seems to be highly regulated, the legislation regarding accounting and auditing of sectional title is vague and ambiguous. Furthermore, there are no industry-specific auditing and accounting standards to guide accounting and auditing practitioners in performing their work and industry financial benchmarks are not readily available. In addition, financial pressure on sectional title schemes is often very high due to the fact that some owners exercise unrealistic pressure to keep monthly levies as low as possible. All these factors have an impact on the business risk as well as audit risk of bodies corporate. Very little academic research has been undertaken on the sectional title industry in South Africa from an accounting and auditing perspective. The aim of this paper is threefold: Firstly, to discuss the findings of a literature review on uncertainties, ambiguity and confusing aspects in current legislation regarding the audit of a sectional title property that may cause or increase audit and business risk. Secondly, empirical findings of risk-related aspects from the results of interviews with three groups of body corporate role-players will be discussed. The role-players were body corporate trustee chairpersons, body corporate managing agents and accounting and auditing practitioners of bodies corporate. Specific reference will be made to business risk and audit risk. Thirdly, practical recommendations will be made on possibilities of closing the audit expectation gap, and further research opportunities in this regard will be discussed.

Keywords : assurance, audit, audit risk, body corporate, corporate governance, sectional title

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