

ACCOUNTING AND AUDITING OF SECTIONAL TITLE PROPERTY: AN OVERVIEW FROM THE GOVERNANCE PERSPECTIVE IN A DEVELOPING COUNTRY

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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 profound 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 property 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. 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 article is threefold: Firstly, to discuss the findings of a literature review on uncertainties, ambiguity and confusing aspects in legislation regarding the audit of sectional title property that may cause or increase the audit expectation gap. Secondly, to discuss the empirical findings of accountancy-related aspects of a sample of body corporate financial statements and accompanying audit reports, in order to identify current benchmarks, challenges, trends, deficiencies in reporting and possible norms for the sectional title industry. Specific reference will be made to the difference between the bodies corporate in the Mangaung and Matjhabeng areas. Thirdly, practical recommendations will be made on possibilities of closing the expectation gap, and further research opportunities in this regard will be discussed.

Keywords: Sectional Title, Body Corporate, Audit, Assurance, Audit Reports, Trustees, Managing Agents

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1. INTRODUCTION

The research findings in this article form part of the results of an extensive study done on the sectional title industry in South Africa from an accounting and auditing perspective, performed in fulfilment of the degree Philosophiae Doctor in Auditing. This article will commence by giving a brief background and overview of the sectional title property industry in South Africa. The problem statement and aim of the article will then be discussed, followed by the research methodology. The next section will deal with a brief literature review. A discussion of the empirical findings will then be done under different sub-sections, followed by a conclusion and possible recommendations.

The South African law of property has mixed origins, with Roman-Dutch law forming the backbone of the South African common law pertaining to property (Pienaar 2010, p.5). Badenhorst et al. (2006, pp.5-7), Mostert et al. (2010, p.11) and Van der Merwe (1989, p.3) identify the principles of the Roman law of property as prevalent in most aspects of modern South African private law

pertaining to property, being supplemented and reinforced by various aspects of Germanic customary law. Before the early 1970's, the concept of sectional ownership was not recognised in South Africa. It was impossible to obtain full ownership rights to a section of a building such as an apartment. In South African law, the maxim superficies solo cedit was taken over from Roman Dutch law (an ultimately Roman law), in terms of which a landowner was also considered to be the owner of any building erected on the land, and a building was seen as a single unit (Pienaar 2010, p.22; Van der Merwe 2014, pp.1-4). Ownership consisted of the entire building, which could not be bought in separate parts. This means that South African law did not recognise separate ownership in a building or parts of that building apart from the ownership of the land on which the building was built (Woudberg 1999, p.3; Shrand 1972, p.1).

Legal systems around the world were compelled to consider the institution of legislation on sectional ownership, and South Africa was no exception. In 1971 the Sectional Titles Act ushered in a new era in home-ownership in South Africa. For

the first time in the history of South African law, home owners were able to purchase a section of a building, such as an apartment, with full ownership rights on that section (Van der Merwe 2014, pp.1-9; Woudberg 1999, p.3; Nel 1999, p.1; Shrand 1972, p.1; Paddock 2008, pp.1-3). The original Sectional Titles Act No. 66 of 1971 was later completely overhauled, improved and replaced by the Sectional Titles Act No. 95 of 1986. The Sectional Titles Act No. 95 of 1986 has been amended by Act No. 11 of 2010, which was published in the Government Gazette on 7 December 2010.

The Sectional Titles Amendment Act No. 11 of 2010 contained the final amendments to the 1986 Sectional Titles Act before the split thereof into three separate statutes (Van der Merwe 2014, pp.1-35; Van der Merwe 2012, pp.611-612). T. Maree (2015, p.1) explains that the original 1986 Act contained a number of problems regarding the examination, approval and filing of scheme rules and dispute resolution. Durham (2015, p.1) and Van der Merwe (2012, p.611) refer to the three new pieces of legislation as third generation sectional titles legislation. The Sectional Titles Schemes Management Act No. 8 of 2011 (also referred to as the STSMA), incorporates all governance and management provisions regarding sectional titles. These sections were taken out of the 1986 Act and amended and adapted to create the STSMA. The remainder of the Sectional Titles Act No. 95 of 1986 (STA) was amended by the Sectional Titles Amendment Act No. 33 of 2013. The 1986 act now only contains technical registrations and survey provisions. The Community Schemes Ombud Service Act No. 9 of 2011 (also referred to as the CSOSA) henceforth provides a dispute resolution mechanism for sectional title and other community schemes. However, the three Acts operate as a unit, and more than four years after being promulgated, neither law has been proclaimed yet. As a result, this article will refer only to the Sectional Titles Act No. 95 of 1986.

During 2010, it was estimated that the South African sectional title industry consisted of almost 60 000 schemes (also known as complexes), comprising over 800 000 individual units (Van der Merwe 2014, p.1-30(17); Editorial 2010, p.1; Muller 2009, p.42). (See also Editorial (2008, p.2).) According to a recent general household survey issued by Statistics South Africa, there are currently around 714 000 households living in flats or apartments and roughly a further 233 000 households living in town house complexes, adding up to approximately 947 000 households living in sectional title schemes (Statistics South Africa 2015, p.122;125).

From the above it follows that sectional title property plays a vital role in the property industry in South Africa. There are various risks involved in being a trustee of a body corporate, and the risks are being aggravated by owner apathy with regard to scheme management. Furthermore, managing agents face numerous practical problems in the day-to-day management of sectional title schemes, and various incidents of fraud occurred in the industry in recent years (Steenkamp & Lubbe 2015c, p.560). There are a large number of contradictory and confusing legal aspects in the current sectional title legislation. Accounting and auditing practitioners also encounter various practical challenges when

performing accounting and assurance services for sectional title clients. Very few members of bodies corporate have knowledge of accounting standards, and this raises questions regarding an appropriate and cost-effective framework to use in the financial reporting of sectional title entities (Steenkamp & Lubbe 2015b, p.569). The size of the entities and the cost constraints they face also raises questions on how to perform proper assurance engagements in the most cost-effective way (Steenkamp & Lubbe 2015a, p.551). Even though the legislation relating to sectional title property has been in place for more than 40 years, library, archive and internet searches revealed that very little academic research has so far been done on sectional titles in South Africa. The academic research identified was mostly postgraduate research in the fields of law, cost accounting, taxation and regional planning, meaning that no academic research has been done specifically from an accounting and auditing perspective to date on the sectional title industry in South Africa, except for the study by Lubbe for the degree Magister in Accounting (2013).

The aim of this article is threefold: Firstly, to discuss the findings of a literature review on uncertainties, ambiguity and confusing aspects in legislation regarding the audit of sectional title property that may cause or increase the audit expectation gap. Secondly, to discuss the empirical findings of accountancy-related aspects of a sample of body corporate financial statements and accompanying audit reports, in order to identify current benchmarks, challenges, trends, deficiencies in reporting and possible norms for the sectional title industry. Specific reference will be made to the difference between the bodies corporate in the Mangaung and Matjhabeng areas. Thirdly, practical recommendations will be made on possibilities of closing the expectation gap, and further research opportunities in this regard will be discussed.

2. LITERATURE REVIEW

2.1. Introduction

During the course of the literature review, the author identified several regulations, rules and sections in the Sectional Titles Act and related publications that contain wording which is not in accordance with accepted accounting terminology. Various instances of unclear and contradictory pieces of legislation and literature were also identified. It should, however, be noted that a full legislative analysis falls outside the scope of this article and will be dealt with by the authors in a subsequent research output. This section of the article will introduce the concepts relating to auditing and accounting as per the Sectional Titles Act and highlight some practical issues identified in related literature.

2.2. Sectional Titles Act requirements

The Sectional Titles Act No. 95 of 1986 deals with auditing and assurance in Prescribed Management Rule (PMR) 40 of the Act, the wording of which is as follows: "At the first general meeting and thereafter at every ensuing annual general meeting, the body corporate shall appoint an auditor to hold office

from the conclusion of that meeting until the conclusion of the next annual general meeting: Provided that where a scheme comprises less than 10 units, an accounting officer may be appointed for that purpose and the auditor or accounting officer, as the case may be, must sign the financial statements.”

Steenkamp & Lubbe (2015a, p.552), explain that there are four aspects in this Rule which should be taken note of. Firstly, fact that the heading of prescribed management rule (PMR) 40 (in Annexure 8 of the STA Regulations) refers to the concept of “audit”; secondly, the “appointment of an auditor to hold office”; thirdly the concept of the “accounting officer” in cases of a scheme consisting of less than ten units; and fourthly the required “signing of the financial statements.” Currently available publications (Paddock 2008, pp.10-1; Pienaar 2010, pp.163-169; Constat & Bleijs 2009, p.100; Van der Merwe 2014, p.14-10(1)) on sectional titles also do not give any further guidance on auditing other than what is stated in the Act. (See also Riddin (2011, p.1)).

2.3. Small Schemes

In the updated Sectional Titles Act as well as the new Sectional Title Schemes Management Act and Regulations thereto, the option for small bodies corporate to appoint accounting officers were scrapped from the legislation (see section 2 above). Therefore, the legislation does not contain any definition of or reference to ‘accounting officers’ anymore. The new rule 17(6)(j)(vi) stipulates that an auditor should be appointed to audit the financial statements, unless all sections in the scheme are registered in the name of one person. The reason for the change in legislation is due to the fact that banking institutions require audited body corporate financial statements as one of the prerequisites in granting a home loan to a prospective buyer of a sectional title unit (Paddock 2010, p.8; Lubbe 2013, p.92). In future, this change in the legislation may negatively impact on the practices of some members of professional bodies (such as the South African Institute of Professional Accountants (SAIPA)) who used to act as accounting officers for bodies corporate. It may also have an effect on the accounting and auditing fees paid by smaller bodies corporate.

2.4. Financial Statements

Section 37(1) requires the trustees to prepare “a financial statement in conformity with generally accepted accounting practice”. Taking the principles of statutory interpretation into account (Botha 2005, pp.39-44), the sentence “in conformity with generally accepted accounting practice” in the Sectional Titles Act will have to be interpreted as either IFRS or IFRS for SMEs. (See also Lubbe (2013, p.127).) International Accounting Standard (IAS) 1 sets overall requirements for the presentation of financial statements as well as guidelines for their structure and minimum requirements for their content (IFRS Foundation 2015, p.A836). The newly revised IAS 1 brought about several changes regarding the wording used in financial statements. Previously IAS 1 used the titles “balance sheet”,

“income statement” and “cash flow statement”. In order to better reflect the functions of the statements the titles were changed. In accordance with IAS 1, a complete set of financial statements comprises of a statement of financial position as at the end of the period; a statement of profit or loss and other comprehensive income for the period; a statement of changes in equity for the period; a statement of cash flows for the period; notes, comprising a summary of significant accounting policies and other explanatory information; and a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

2.5. Information and Notes Pertaining to Proper Financial Management

As part of Subsection 2 of Section 37 the Act prescribes the detail of further information to be contained in the annual financial statements of a sectional title scheme as follows: “*The financial statement shall include information and notes pertaining to the proper financial management by the body corporate, including: (a) the age analysis of debts in respect of levies, special levies and other contributions; (b) the age analysis of amounts owing by the body corporate to the creditors & in particular to any public or local authority in respect of rates and taxes and charges for consumption or services, including but not limited to, water, electricity, gas, sewerage and refuse removal; and (c) the expiry dates of all insurance policies.*”

Regarding the age analysis of debts and amounts owing, the Act does not specify the format, content or level of detail of the age analyses. The Act does not indicate whether the age analysis should include all debtors and creditors, or perhaps just those over 30 days. Furthermore, regarding the level of detail, the Act does not make mention of whether the age analysis should include the names of the individual debtors and creditors (Lubbe 2013, p.132).

2.6. Reserve Fund Requirement

Probably the most significant and most controversial change brought about by the third generation sectional title legislation is the requirement by section 3(1)(b) of the new proposed Sectional Title Schemes Management Act (STSMA) to establish and maintain a reserve fund. Section 3(1)(b) of the STSMA requires the fund to be reasonably sufficient to cover the cost of future maintenance and repair of common property, but not less than such amounts as may be prescribed by the Minister. Currently, it is estimated that the percentage will be 25% of total levy contributions. It is widely believed that bodies corporate that do not currently have a reserve fund in place will be granted a period of two years from enactment of the new Regulations (Prince 2015a, p.1; Prince 2015b, p.1).

3. RESEARCH METHODOLOGY

The research design was developed to address the research problem stated above. The research

consists of a brief literature study, followed by a quantitative empirical study. The literature study in this article commenced with detailed searches done by research specialists at the academic libraries at the Central University of Technology, Free State and the University of the Free State as well as the Archive for Contemporary Affairs at the University of the Free State. The searches identified various possible literature sources, including books, articles, theses, dissertations, internet sources and professional and institutional publications.

Flowing from the literature study, a quantitative research strategy was followed, by way of an analysis of the annual financial statements and audit reports thereto of bodies corporate over a period of two years. Two large municipalities from the Free State Province were selected for field visits, namely Mangaung Metropolitan Municipality (the "larger" Bloemfontein) and Matjhabeng Local Municipality (the "larger" Welkom). Mangaung Metropolitan Municipality has a diverse population and is home to two universities. The economy is strongly driven by the government sector and very active estate and construction activities (Statistics South Africa 2011a, p.1). The economy of Matjhabeng Local Municipality is largely driven by the mining sector, a sector which has seen a steady decline in recent years (PwC 2014, p.7). According to Statistics South Africa, more than a third of the Matjhabeng Local Municipality population is unemployed, discouraged work seekers (Statistics South Africa 2011b, p.1). The latest available statistics indicate that the Mangaung Metropolitan Municipality includes the cities of Bloemfontein, Mangaung and Thaba Nchu. The municipality has a total population of 747 431, with 231 921 households, an average household size of 3.1 people per household, and a population density of 119 persons per square kilometre. The municipality had a population growth rate of 1.47% between 2001 and 2011 (Statistics South Africa 2011a, p.1). The major cities in Matjhabeng Local Municipality are Allanridge, Hennenman, Odendaalsrus, Ventersburg, Virginia and Welkom. The municipality has a total population of 406 461, with 123 195 households, an average household size of 3.1 people per household, and a population density of 79 persons per square kilometre. The municipality had a population growth rate of -0.04% between 2001 and 2011.

According to the Department of Rural Development and Land Reform, there were 3 207 sectional title schemes registered in Mangaung Metropolitan Municipality and 134 sectional title schemes in Matjhabeng Local Municipality at the end of 2015. Due to the difficulty of gathering a sample of annual financial statements and audit reports of bodies corporate stretching over an uninterrupted period of at least three years, a non-probability sampling technique was chosen, and the sample was selected by way of convenience sampling.

A sample of 50 sets of annual financial statements including audit reports thereto was selected at random, covering a period of two years for bodies corporate in each of the two identified municipal areas in South Africa. The financial statements and accompanying audit reports are for the financial years ending 2014 and 2015. Since the 2014 financial statements also have figures for the comparative financial year (2013), the data of three

financial years were available for analysis. The financial statements were obtained as follows: 50 statements for Mangaung for 2014, 50 for Mangaung for 2015, 50 for Matjhabeng for 2014 and 50 for Matjhabeng for 2015. This added up to a total of 200 annual financial statements with accompanying audit reports. These annual financial statements with the accompanying audit reports were obtained from several of the managing agents and audit firms who participated in the larger study. The sample of the annual financial statements selected covers a variety of bodies corporate and includes: residential bodies corporate, small (fewer than 10 units) town house complexes, medium (between 10 and 50 units) town house complexes, large (more than 50 units) town house complexes; small (fewer than 10 units) blocks of flats; medium (between 10 and 50 units) blocks of flats; large (more than 50 units) blocks of flats; and combined bodies corporate (residential and commercial units in one scheme).

Furthermore, the sample was selected so as to include financial statements and audit reports drawn up and audited by a number of different accounting and auditing practitioners. All the financial statements obtained were captured and analysed in Excel spreadsheets. The financial statements were summarised according to the main income and expense categories as well as important sections in the accompanying notes to the financial statements. Certain components of the audit reports were also analysed. Various forms of analysis were conducted on the selected annual financial statements and accompanying audit reports, in line with the purpose of this article which is, amongst others, to identify, amongst others, trends, deficiencies in reporting and possible norms for the sectional title industry.

4. RESEARCH RESULTS

4.1. Introduction

As part of the empirical study, various forms of analysis were conducted on the selected annual financial statements and accompanying audit reports, the purpose of which is to identify, amongst others, trends, deficiencies in reporting and possible norms for the sectional title industry. As mentioned in section 4 above, a distinction was made between small (consisting of fewer than 10 units), medium (between 10 and 50 units) and large (more than 50 units) schemes. For the total sample of 200 sets of financial statements of bodies corporate over a period of three years (50 for Mangaung for 2014 as well as for 2015, and 50 for Matjhabeng for 2014 as well as for 2015), the annual financial statements were analysed. For Mangaung, 4 schemes were classified as small (consisting of fewer than 10 units), 44 were classified as medium (between 10 and 50 units) and 2 schemes were classified as large (more than 50 units). For Matjhabeng, 22 schemes were classified as small (consisting of fewer than 10 units), 27 were classified as medium (between 10 and 50 units) and 1 scheme was classified as large (more than 50 units). For the calculation of the average amounts of the different sized schemes, the total amounts of all the sets of financial statements in the sample for a specific size were added up on a

line by line basis per year and then divided by the number of schemes for the size.

4.2. Audit Reports

For the sample of 100 sets of annual financial statements inspected for 2014, 74 had a "Report of the Independent Auditor" attached (49 in Mangaung and 25 in Matjhabeng), while 26 had accounting officer reports attached (1 in Mangaung and 25 in Matjhabeng). In 2015, 76 of the 100 annual financial statements had a "Report of the Independent Auditor" (49 in Mangaung and 27 in Matjhabeng), whereas 24 had accounting officer reports attached (1 in Mangaung and 23 in Matjhabeng). From all the audit reports analysed, 7 bodies corporate received a qualified audit report in 2014 as well as in 2015. All 7 of the bodies corporate were situated in Matjhabeng, and the bodies corporate received a qualified audit report for stating that the entities were not going concerns.

From 100 the audit reports analysed for 2014, 52 bodies corporate (49 in Mangaung and 3 in Matjhabeng) had an emphasis of matter paragraph in the audit report, and in 2015, 54 (49 in Mangaung and 5 in Matjhabeng) bodies corporate had an emphasis of matter paragraph. The specific bodies corporate received an emphasis of matter for not complying with International Financial Reporting Standards. (See also the findings of Steenkamp & Lubbe (2015a, p.555).)

4.3. Format of Financial Statements and Supplementary Information

For the sample of 100 sets of annual financial statements for 2014 and 2015, all the financial statements comprised of an income statement, balance sheet and notes to the financial statements. All of the financial statements for Mangaung and Matjhabeng still used the "old" wording of "income statement" and "balance sheet" instead of the wording "statement of profit or loss and other comprehensive income" and "statement of financial position". None of the body corporate financial statements included a statement of changes in equity or a statement of cash flows for the period.

Financial statements of bodies corporate often contain supplementary information over and above the standard contents. Supplementary information can include items such as an explanation of audit fee provision, a debtors age analysis, creditors age analysis, expiry dates of insurance policies, information regarding changes to the rules of the complex, or a statement regarding the solvency of the body corporate. Three of these items, namely the age analysis of debts, age analysis of amounts owing, and expiry dates of insurance policies are specifically required in subsection 2 of Section 37 of the original Sectional Titles Act. (See also section 5.2 for the specific items.)

For the 2014 as well as the 2015 financial year, 47 of the 100 annual financial statements (all 47 in Mangaung) indicated the expiry dates of the insurance policies as required by the Sectional Titles Act (STA) in the supplementary information to the financial statements. In 2014, 48 of the 100 annual financial statements (all 48 being for schemes from Mangaung) contained a debtors age analysis, and in

2015, 45 of the 100 annual financial statements (all 45 being schemes from Mangaung) contained a debtors age analysis as required by the Sectional Titles Act. In 2014 as well as in 2015, the 50 annual financial statements from Mangaung all contained creditors age analyses and information on the changes to the rules of the complexes. None of the required information was available in the Matjhabeng annual financial statements.

All of the 100 annual financial statements for 2014 and 2015 contained some form of supplementary information, albeit not the specific information required by the STA. However, according to the audit reports, the supplementary information of only 27 reports (3 for Mangaung and 24 for Matjhabeng) were audited for the 2014 financial year. For the 2015 financial year, the supplementary information of only 34 reports (8 for Mangaung and 26 for Matjhabeng) were audited. In these cases, the line "as set out on pages xx to xx" in the audit report included the page numbers containing the supplementary information. Further inspection of the above indicated that in many instances the audit reports used seemed to be a template that was copied and pasted from one year to the next. This sometimes resulted in the line "as set out on pages xx to xx" in the audit report to be exactly the same from year to year, even though the page numbers did not stay the same. The problem with this is that it may cause the reader of the audit report to make the assumption that the supplementary information was audited, when it was not the case, or vice versa.

4.4. Audit Fees

An analysis of audit fees revealed that for Mangaung the average audit fee per unit amounted to R100.03 in 2013, R104.64 in 2014, and R118.00 in 2015. There was an increase of 4.61% from 2013 to 2014 and an increase of 12.77% from 2014 to 2015. For Matjhabeng the average audit fee per unit amounted to R137.40 in 2013, R159.14 in 2014 and R168.14 in 2015. This is an increase of 15.82% from 2013 to 2014 and an increase of 5.66% from 2014 to 2015. The average audit fee per unit in Matjhabeng was 37.36% higher than in Mangaung in 2013, 52.48% higher in 2014 and 42.49% higher in 2015. Furthermore, in Mangaung, audit fees of sectional title schemes made up 2.06% of total expenses in 2013, 1.20% in 2014 and 1.22% in 2015. In Matjhabeng, the percentage was somewhat higher, with audit fees accounting for 1.75%, 1.74% and 1.81% of total expense.

4.5. Small Scheme Audits

In section 5.3 it was mentioned that for schemes with fewer than 10 units, an accounting officer may be appointed instead of an auditor. Therefore, from the sample, 4 schemes in Mangaung and 22 schemes in Matjhabeng had the option of appointing an accounting officer. During 2014 as well as 2015, 1 of the 4 (25%) small schemes in Mangaung made use of the services of an accounting officer, while the remaining 3 (75%) appointed an auditor. It was not the same scheme for both years. The one for 2014 switched back to an auditor in 2015, and during 2015, one scheme switched from an auditor to an

accounting officer. During 2014, 21 of the 22 (95%) small schemes in Matjhabeng used the services of an accounting officer, while the remaining 1 (5%) used the services of an auditor. In 2015, 20 of the 22 (91%) schemes appointed an accounting officer, with the remaining 2 (9%) using the services of an auditor. One of the schemes who made use of an accounting officer in 2014 moved over to an auditor in 2015.

Further analysis revealed differences in average audit fees per scheme and unit between small, medium and large schemes, with the most significant difference in small schemes. In Mangaung, the average audit fee per unit for a small scheme amounted to R433.70 (2013), R330.74 (2014) and R363.15 (2015). The reason for the sharp decline in average audit fee per unit was that, in 2014, one of the sectional title schemes in the sample changed their auditing service provider to a practitioner that was more affordable. In Matjhabeng the average audit fee per unit for a small scheme was R143.49 (2013), R157.40 (2014) and R174.47 (2015). The difference is attributable to the fact that, as mentioned above, the majority of the small schemes in Matjhabeng used the services of an accounting practitioner to simply compile the financial statements, whereas in Mangaung, the majority of the small schemes had their financial statements audited. In future, this change in the legislation may negatively impact on the accounting and auditing fees paid by smaller bodies corporate.

4.6. Analysis of Expenses

Corresponding to the concern of L. Lubbe (2013, pp.137-138), it was observed during the summarising of the financial statements that many of the financial statements contained a line item called "other" on the face of the income statement, which was usually quite large. In the summarised financial statements of Mangaung the line item "other" accounted for 22.96% of the total average expenses in 2013, 28.34% in 2014 and 25.89% in 2015. For Matjhabeng the line item "other" accounted for 14.62% of the total average expenses in 2013, 14.57% in 2014 and 15.23% in 2015. Even though individual amounts may not be material in nature and magnitude allocating a large portion of expenses to a non-descriptive line item such as "other" is not necessarily in accordance with good, transparent accounting practices and does not comply with the qualitative characteristic of faithful representation (IFRS Foundation 2014, pp.1-3). In some cases, though, the amounts were detailed in the notes to the financial statements.

Analysis of the total average expenses of the total sample revealed that for Mangaung, except for the line item "other", the six largest expenses were repairs and maintenance, insurance, water and electricity, management fees, audit/accounting fees and bank charges. For Mangaung, these six expenses accounted for a total of 74.71% (2013), 68.62% (2014) and 71.20% (2015) of total expenses. For Matjhabeng the six largest expenses, except for the line item "other", were identified as repairs and maintenance, insurance, water and electricity, management fees, audit/accounting fees and rates and taxes. These six expenses accounted for a total of 84.28% (2013), 84.63% (2014) and 84.13% (2015) of total expenses.

For the total sample of both Mangaung and Matjhabeng, repairs and maintenance were by far the largest single expense at 40.06% (2013), 26.25% (2014) and 33.85% (2015) of average total expenses for Mangaung and 12.61% (2013), 17.15% (2014) and 16.34% (2015) for Matjhabeng. For Mangaung, the average annual total repairs and maintenance expense per scheme amounted to R95,938.82 (2013), R62,851.02 (2014) and R81,060.78 (2015). For Matjhabeng, the average annual total repairs and maintenance expense per scheme amounted to R30,191.14 (2013), R41,076.22 (2014) and R39,129.62 (2015). The very large repairs and maintenance expense in 2013 for Mangaung was influenced by one of the large schemes doing extensive maintenance on their elevator systems.

Insurance, water and electricity and management fees were the second, third and fourth largest expenses in both Mangaung and Matjhabeng. For the financial statements analysed, the expenses for water and electricity were shown as a combined total amount on the financial statements and were not indicated separately. For Mangaung, insurance accounted for 14.14% of total expenses (R33,864.43) (2013), 15.12% (R36,216.29) (2014) and 16.33% (R39,114.45) (2015), water and electricity for 10.71% of total expenses (R25,649.77) (2013), 11.20% (R26,822.39) (2014) and 10.80% (R25,867.04) (2015), and management fees for 8.44% of total expenses (R20,214.20) (2013), 9.22% (R22,077.98) (2014) and 10.01% (R23,979.87) (2015). For Matjhabeng, insurance accounted for 11.60% of total expenses (R27,776.57) (2013), 12.48% (R29,875.96) (2014) and 13.63% (R32,650.22) (2015), water and electricity for 11.92% of total expenses (R28,535.87) (2013), 12.72% (R30,457.28) (2014) and 12.33% (R29,524.21) (2015), and management fees for 3.39% of total expenses (R8,109.10) (2013), 3.93% (R9,419.28) (2014) and 4.40% (R10,545.54) (2015). For Mangaung as well as Matjhabeng, the fifth largest expense was audit/accounting fee which was already discussed above. The sixth largest expense for Mangaung was bank charges at 0.30% of total expenses (R714.08) (2013), 0.25% (R642.85) (2014) and 0.26% (R624.40) (2015). The sixth largest expense for Matjhabeng was rates and taxes, amounting to 0.94% of total expenses (R2243.40) (2013), 0.93% (R2,233.57) (2014) and 0.88% (R2,511.98)

4.7. Levies

The analysis of the total average income for the total sample indicated that levies were the largest single contributing factor to total average income. Expressed in rand terms, total average levies for Mangaung amounted to R230,438.30 per scheme in 2013, R245,263.60 in 2014 and R268,169.87 in 2015. Expressed in rand terms, total average levies for Matjhabeng amounted to R126,225.28 per scheme in 2013, R137,930.83 in 2014 and R143,382.36 in 2015. Expressed in rand per unit, the average levy per unit for Mangaung was R7,447.29 in 2013, R7,974.21 in 2014 and R8,407 in 2015. The average levy per unit for Matjhabeng amounted to R8,103.87 in 2013, R8,643.38 in 2014 and R9,299.57 in 2015. From the above it is evident that there was a general increasing trend in total average levies from 2013 to 2015. Furthermore, in rand terms levies were 8.82% higher in Matjhabeng than in Mangaung in 2013,

8.39% higher in Matjhabeng in 2014 and 10.61% higher in Matjhabeng in 2015.

A further interesting observation relating to levies relates to the sizes of the schemes analysed. The levy per unit in Mangaung amounted to R10,234.07 (2013), R10,763.99(2014) and R10,985.92 (2015) for small schemes, R7,552.68 (2013), R8,088.89 (2014) and R8,519.77 (2015) for medium schemes and R6,799.54 (2013), R7,293.35 (2014) and R7,755.43 (2015) for large schemes. This means that levies in small schemes were 37.42% more expensive than the average levy in Mangaung in 2013, 34.98% more expensive in 2014 and 30.67% more expensive in 2015. The levies for medium schemes in Mangaung were only 1.42% more expensive than the average levy in 2013, 1.44% higher in 2014 and 1.34% higher in 2015. For the large schemes the levies were 8.7% lower than the average in 2013, 8.54% lower in 2014, and 7.75% lower in 2015. The levy per unit in Matjhabeng amounted to R8,490.96 (2013), R9,618.16 (2014) and R10,351.41 (2015) for small schemes, R8,003.34 (2013), R8,513.98 (2014) and R9,166.06 (2015) for medium schemes and R7,123.93 (2013), R7,755.21 (2014) and R7,947.21 (2015) for large schemes. This means that levies in small schemes were 4.78% more expensive than the average levy in Matjhabeng in 2013, 11.28% more expensive in 2014 and 11.31% more expensive in 2015. The levies for medium schemes in Matjhabeng were 1.24% lower than the average levy in 2013, 1.43% lower in 2014 and 1.44% lower in 2015. For the large schemes the levies were 12.09% lower than the average in 2013, 10.28% lower in 2014, and 14.54% lower in 2015. It is therefore evident that measured in rand per unit, it is significantly more expensive to stay in a small sectional title scheme.

4.8. Receivables

Despite the current economic recession, the schemes did not write off large amounts of bad debt. The average schemes in Mangaung had a bad debt expense of zero in 2013, R809.12 in 2014, and once again zero in 2015. For Matjhabeng, bad debt expenses amounted to R349.16 in 2013, R207.96 in 2014 and zero in 2015. The average receivables collection period in Mangaung showed an increase from 25.58 days in 2013 to 33.26 days in 2014 and 38.15 days in 2015. The average receivables collection period in Matjhabeng showed no specific trend with 36.39 days in 2013, 38.47 days in 2014 and 24.58 days in 2015.

4.9. Reserve Funds

The average reserve funds of schemes in Mangaung showed an increasing trend over the three-year period, amounting to R41,595.29 in 2013, R66,212.91 in 2014 and R90,522.18 in 2015. The average reserve funds of schemes in Matjhabeng also showed an increasing trend over the three-year period, amounting to R51,305.08 in 2013, R52,925.53 in 2014 and R57,877.21 in 2015. Further analysis indicated that at the end of 2015, 7 of the 50 schemes in Mangaung did not have the required 25% of their annual levies available as reserve funds. In Matjhabeng, 11 of the 50 schemes did not have the required 25% of annual levies available in a reserve fund at the end of 2015.

5. CONCLUSIONS

A number of observations were made from the research findings. Many bodies corporate receive emphasis of matter paragraphs in their audit reports, relating to the fact that the body corporate financial statements do not comply with International Financial Reporting Standards. It was also found that most bodies corporate still use the "old" wording of "income statement" and "balance sheet" instead of the wording "statement of profit or loss and other comprehensive income" and "statement of financial position". Also, none of the body corporate financial statements included a statement of changes in equity or a statement of cash flows for the period. Further, many bodies corporate do not comply with the legislative requirements regarding additional information that should be included as part of the financial statements, such as age analyses of debtors and amounts owing and information on insurance policies. It was found that, in many instances audit reports seem to be a copied and pasted from one year to the next, resulting in incorrect information and references. The study identified a number of averages and percentages, specifically regarding levy income, expenses, receivables and reserve funds. Further, many bodies corporate with fewer than 10 units use the services of an accounting practitioner to simply compile the financial statements, instead of having their financial statements audited. In future, the change in the legislation that no longer allows for this practice may negatively impact on the accounting and auditing fees paid by smaller bodies corporate. Repairs and maintenance were found to be the largest single expense for bodies corporate in the sample. Also, it is evident that measured in rand per unit, levies are significantly higher in small sectional title schemes than in large schemes. Finally, many sectional title schemes do not yet have the required reserve funds available as per the new legislative requirements.

From the empirical study, a number of recommendations can be made. Firstly, the study identified a number of averages and percentages, specifically regarding levy income, expenses, receivables and reserve funds. These figures can be used as industry benchmarks, and it can be of assistance as an industry standard for owners, trustees, managing agents, auditors and accountants rendering a professional service within the sectional title industry. Secondly, the empirical study identified that many sectional title schemes do not comply with International Financial Reporting Standards. The possibility of an industry-specific accounting standard for the sectional title industry should be investigated. It is suggested that the South African Institute of Chartered Accountants (SAICA) establish a sectional title industry interest group and task them with developing such an accounting standard. Thirdly, auditing practitioners should exercise caution when using audit report template. Practitioners should ensure that only the information that was indeed audited is included in the pages indicated by the audit report, otherwise it may lead to an assumption by the reader of the audit report that the supplementary information was audited, when it was not the case, or vice versa. Finally, bodies corporate should take note of the

proposed new legislative requirement regarding reserve funds and put the appropriate budgeting measures in place.

The article commenced with a brief literature review on problematic aspects in legislation regarding the audit of sectional title property that may cause or increase the audit expectation gap. Secondly, empirical findings of accountancy-related aspects of a sample of body corporate financial statements and accompanying audit reports were discussed with specific reference to the difference between the bodies corporate in the Mangaung and Matjhabeng areas. Thirdly, benchmarks were identified and some practical recommendations were being made on possibilities of closing the expectation gap.

Against the background of the empirical findings, further studies can be undertaken in other municipal areas in South Africa, covering a larger geographical area. Furthermore, the financial information in this study only covered a period of three years and no distinction was made between residential, commercial and combined bodies corporate. In future research studies, the financial information can, for instance, be split into those categories. Furthermore, financial information can be obtained for more than three years, in order to identify clearer trends.

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