



ANALYSIS AND RESPONSES TO VERBAL COMMENT

RECEIVED ON

**PROPOSED GUIDELINE ON *ACCOUNTING FOR*
ARRANGEMENTS UNDERTAKEN IN TERMS OF THE
*NATIONAL HOUSING PROGRAMME***

(ED 140)



RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED GUIDELINE ON *ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME* (ED 140)

The Accounting Standards Board (Board) approved the exposure of the proposed Guideline on *Accounting for Arrangements Undertaken in Terms of the National Housing Programme* (ED 140) in December 2015 for comment. A Notice was also published in the Government Gazette on the 18th of December 2015 (Notice 39531). The comment period closed on 15 June 2016.

The proposed Guideline was discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or other meetings as listed in the table on the next page. In addition, a presentation on the proposed Guideline was also made during a SAICA webcast.

The results from the workshops, roundtable discussions or other meetings are summarised in this document into general matters, and include the Board's responses to the comment received.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME (ED 140)

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Provincial Treasury Eastern Cape			√		
2.	IMFO Western Cape		√			
3.	IMFO KwaZulu Natal		√			
4.	Auditor-General Product Champion meeting				√	
5.	Provincial Treasury Western Cape			√		
6.	City of Cape Town		√			
7.	Provincial Treasury Mpumalanga			√		
8.	SALGA and IMFO joint consultative session (Gauteng, Limpopo, North West, Mpumalanga)		√			
9.	SALGA and IMFO joint consultative session (Eastern Cape, Free State and Northern Cape)		√			
10.	MFMA Implementation Unit			√		
11.	Public Finance and Budget Unit at National Treasury			√		
12.	Roundtable discussion with various stakeholders			√		
13.	North West Public Sector Forum		√			



Accounting Standards Board

14.	SAICA webcast		√			
	TOTAL	14	7	6	1	0



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

No.	Comment	Board's responses
1.	Provincial Treasury – Eastern Cape	
1.1	Participants expressed broad support for the proposed Guideline.	Noted. No further action required.
1.2	<p>Participants noted that they are currently not accounting for housing arrangements in accordance with the principles in the proposed Guideline, more specifically in accounting for the houses under construction (“top-structures”).</p> <p>As a result, municipalities may not all have the relevant information to provide to the provincial departments or the national department of Human Settlements to ensure that they account for the housing development.</p>	<p>Noted. Specific engagements were held with representatives from the national and provincial Departments of Human Settlements to ensure that they understand the accounting implications of the Housing Guideline. Engagements were also held with representatives from the Office of the Accountant-General responsible for drafting the implementation guidance. These representatives confirmed that the departmental guidance will be updated and aligned with the principles in this Guideline once approved and issued by the Board.</p> <p>One of the differences between a level one and a level two accredited municipality, is that all level two accredited municipalities are required in terms of the National Housing Code, to implement a Housing Subsidy System (HSS). The HSS is an online system whereby information such as the payment of contractors and /or other service providers by the municipality for a specific housing development is captured. This information is the reported to the relevant provincial Department of Human Settlements. In addition, before any transfers can be made by the relevant provincial Department of Human Settlements to a municipality, certain information needs to be submitted by the municipality to the relevant</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>Department of Human Settlements.</p> <p>However, as this is a practical challenge that needs to be addressed between the municipality that is involved in the housing development, and the relevant provincial Department of Human Settlements, the Board agreed that no additional guidance can be included in the Housing Guideline. Instead, the comment will be shared with the Office of the Accountant-General for its consideration during the development of implementation guidance.</p>
1.3	<p>Participants enquired how, and by whom, any inconsistencies between the proposed Guideline and the current guidance prescribed by the Office of the Accountant General, namely the Budget Circular No. 72 and the Specific Sector Guide: Human Settlement Departments will be addressed once the Guideline is issued by the Board.</p>	<p>Noted. Specific engagements were held with representatives of the National Treasury to discuss this concern.</p> <p>The OAG indicated that the departmental guidance will be aligned with the requirements in the Housing Guideline once it is approved by the Board. Likewise, the MFMA Implementation Unit also indicated that it would consider amending the requirements in the Budget Circular once the Guideline is approved by the Board.</p> <p>To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

2.	Institute of Municipal Finance Officers – Western Cape	
2.1	Participants expressed broad support for the proposed Guideline.	Noted. No further action required.
2.2	<p>Participants noted that applying the principles in the proposed Guideline will result in practical challenges as:</p> <ul style="list-style-type: none"> • municipalities were not previously accounting for houses under construction/completion as proposed in the Guideline; • in some instances, no formal agreements exists between the municipalities and the relevant provincial Department of Human Settlements. 	<p>Noted.</p> <p>Noted. As the Guideline does not introduce new accounting principles, an entity will be required to apply the principles in GRAP 3 on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to account for prior year adjustments where they have not accounted for houses under construction, or land, as required by the Guideline. Chapter 8 has been included to explain the application of the Guideline to existing arrangements.</p> <p>Noted. In terms of the Housing Code an entity that wants to participate in the national housing programme must complete certain documents to enable them to participate in housing development. These include the Implementation Protocol Agreement, a Service Level Agreement, a Memorandum of Understanding or similar arrangement. Where non-accredited municipalities participate in the national housing programme, an arrangement should also be in place with the relevant provincial Department of Human Settlements before the department can allocate grant payments to the non-accredited municipality.</p> <p>As a result of these legislative requirements, certain documentation</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>needs to be in place. The Board concluded that a binding arrangement needs to be in place for a municipality to be able to participate in the national housing arrangement. The Board also concluded that it is highly unlikely that an entity will be allowed to participate in the national housing programme without an arrangement in place that sets out the entity's rights and obligations in relation to the housing development. Paragraph 3.11 therefore clarifies that it is unlikely that municipalities will undertake activities in terms of the national housing programme in the absence of an arrangement between itself and the relevant provincial Department of Human Settlements. In the absence of any specific arrangement, legislation or similar means, forms the basis for the binding arrangement between the parties.</p> <p>As a result of these clarifications in the Housing Guideline, no amendment was made by the Board to the principle that requires the existence of a binding arrangement.</p>
2.3	<p>Participants questioned whether the portion of the land on which infrastructure is developed, should be brought back onto the municipality's statement of financial position as a separate asset and accounted for as land, or whether the cost for the land on which infrastructure will be developed, should be included as part of the infrastructure line item in the statement of financial position.</p> <p>Clarification on the accounting treatment should be provided in the proposed Guideline.</p>	<p>Noted. Paragraph 7.86 requires that, if a municipality at the time of entering into an arrangement with the provincial Department of Human Settlements concludes that it controls portions of vacant land, it should account for that land as its asset when the arrangement is entered into.</p> <p>Paragraph 7.83 has been added to explain that the municipality should assess whether the land on which the infrastructure is constructed should be accounted for as its asset after considering the</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		principles on vacant land in paragraphs 7.84 to 7.91 of the Guideline.
2.4	Community assets have a different meaning in the new mSCOA to that anticipated in the proposed Guideline. Consideration should be given to the use of another term, for example “other assets”, rather than “community assets”.	Noted. Paragraph 7.92 explains community assets in the context of this Guideline as buildings such as municipal halls, clinics and fire stations. However, to avoid confusion over the meaning of “community assets”, the term has been amended to “other assets”.
2.5	An explanation should be included on the treatment of any additional costs that are incurred by a municipality when executing its functions on behalf of the relevant Department of Human Settlements for which the municipality will not be refunded or reimbursed. The proposed Guideline should clarify that these additional costs should be accounted for by the municipality in terms of the applicable Standard of GRAP.	<p>Noted. The terms of the agreement will usually specify, amongst other things, the nature and amount of other costs that will be incurred by the municipality and which will not be refunded.</p> <p>Paragraph 4.34 has been expanded to explain that when the municipality acts as an agent (i.e. project manager), it should only recognise revenue and expenses that it receives or incurs in return for executing the transactions on behalf of the principal. This includes expenses incurred for which the municipality will not be reimbursed by the relevant provincial Department of Human Settlements.</p> <p>In addition, paragraph 5.20 was added to explain when the municipality is a project developer in a housing arrangement, it needs to assess whether expenses incurred, which will not be reimbursed by the relevant Department of Human Settlements comprise contract costs as outlined in paragraph 5.16 of the Guideline. Based on this assessment, the costs incurred should be recognised in accordance with the applicable Standard of GRAP.</p>
2.6	The budget requirements in accounting for housing arrangements as	Noted. Specific engagements were held with representatives of the



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

	<p>prescribed by the Budget Circular differ from the accounting requirements proposed in the Housing Guideline. Participants emphasised that the National Treasury should be involved in the discussions.</p> <p>Participants also indicated that the National Treasury should ensure that the departmental guidance on the treatment of housing arrangements is aligned with the principles in the Housing Guideline to eliminate inconsistencies.</p>	<p>National Treasury to discuss this concern.</p> <p>The OAG indicated that the departmental guidance will be aligned with the requirements in the Housing Guideline once it is approved by the Board. Likewise, the MFMA Implementation Unit also indicated that it would consider amending the requirements in the Budget Circular once the Guideline is approved by the Board.</p> <p>To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p>
2.7	<p>Even though the conclusion in the proposed Housing Guideline reflects that the municipality should not account for the constructed assets during and after construction when it performs functions as a project manager or project developer, municipalities, in some instances, remain responsible to insure the property while under construction.</p> <p>It was questioned whether the requirement to insure the work-in-progress and completed house will impact the accounting principles in the Housing Guideline.</p>	<p>Noted. Insurance of property is not directly linked to assessing control. For an entity to demonstrate that it controls an asset, it needs to demonstrate that it has the right to direct access to land, and to restrict or deny the access of others to the land.</p> <p>The Housing Guideline concluded that neither the project manager, nor the project developer controls the houses during or after construction based, on the fact that the municipality acting as project manager is an agent, and the municipality who is the project developer assumes responsibility as a contractor in terms of the Standard of GRAP on <i>Construction Contracts</i>. Therefore, irrespective</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		of the requirement that the houses need to be insured by the municipality during, or after construction, the houses do not meet the definition of an asset for the municipality, and should therefore not be accounted for as such in their financial statements.
2.8	<p>Houses under construction are currently being accounted for inconsistently by municipalities. Some municipalities account for the houses under construction as their work-in-progress, while others account for the expenses incurred and paid to contractors as their expenses.</p> <p>It was questioned whether any transitional provisions will be included in the Housing Guideline to allow municipalities some time to implement the principles in the Guide, as different practices are currently applied.</p>	<p>Noted. As the Housing Guideline does not introduce new accounting principles, but applies existing principles in the Standards of GRAP to arrangements undertaken in terms of the national housing programme, no transitional provisions were developed for the Guideline.</p> <p>However, to allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p> <p>This will also allow municipalities time to consider and implement the Housing Guideline.</p>
2.9	<p>Participants questioned what portion of the land should be derecognised from a municipality's statement of financial position when an arrangement has been entered into with the provincial government. Respondents questioned whether there is any norm that is currently used during the planning phases to</p>	<p>Noted. Paragraph 7.86 clarifies that, if a municipality at the time of entering into an arrangement with the provincial Department of Human Settlements, concludes that it controls a portion of vacant land, it should account for that land as its asset, and therefore, only</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

	<p>determine the percentage of land that should be retained as the municipality's asset. Participants suggested that this matter should be addressed in the proposed Housing Guideline.</p>	<p>derecognise the portion that it does not control after entering into the arrangement with the relevant provincial Department of Human Settlements. This additional clarification has been included in paragraph 7.86, and examples have been included in paragraph 7.91 to explain this principle.</p> <p>This assessment is done at inception of the arrangement with the relevant provincial Department of Human Settlements by applying the principles in the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i>.</p> <p>Paragraph 7.87 clarifies that, in determining the portions of vacant land that the municipality controls, it may use township planning guidelines and frameworks, policies or similar documents in making an estimation of the portions.</p> <p>As the Housing Guideline already provides guidance on these issues, no further amendments were agreed by the Board.</p>
2.10	<p>The proposed Guideline should also provide guidance on how the portions of land that will be controlled by the municipality after the township development should be valued, i.e. should the land be recognised at cost or at fair value when previously controlled by the municipality.</p>	<p>Noted. Guidance on the measurement of land is provided based on how land is acquired.</p> <p>Paragraph 7.86 clarifies that if a municipality at the time of entering into an arrangement with the provincial Department of Human Settlements, concludes that it controls portions of vacant land, it should account for that land as its asset, and therefore, only derecognise the portion that it does not control. This additional clarification has been included in paragraph 7.86, and examples have</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>been included in paragraph 7.91 to explain this principle.</p> <p>This assessment should be done at inception of the arrangement with the relevant provincial Department of Human Settlements by applying the principles in the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i>.</p> <p>Therefore, if the land is already recognised as an asset by the municipality, it would continue to measure the land in accordance with its existing accounting policy. Any new land that is controlled by the municipality will be recognised either at cost or fair value, depending on whether the land was donated by a third party or acquired in terms of the HSDG grant. The municipality will then apply its existing accounting policy to account for the land subsequently.</p>
2.11	Participants proposed that the cost of land on which infrastructure will be developed should not be derecognised and then again be recognised at a future point in time when control is established. Instead, an estimation of the portion over which control will be retained should be made, and once the township development is completed, the estimate adjusted.	Noted. Refer to the response in comment 2.9 and 2.10 above.
3.	Institute of Municipal Finance Officers – KwaZulu Natal	
3.1	Participants questioned the accounting implications when an entity has accounted for land and the top structure in a different way to that proposed in the Housing Guideline.	As the Guideline does not introduce new accounting principles, an entity will be required to apply the principles in the Standard of GRAP on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		to account for prior year adjustments where they have not accounted for houses under construction, or land, as required by the Guideline. Chapter 8 has been included to explain the application of the Guideline to existing arrangements.
3.2	Participants questioned whether the Board will allow any transitional provisions and/or a transitional period for the implementation of the proposed Housing Guideline?	Refer to the response in comment 3.1 above.
3.3	Participants noted that the guidance provided by the budget office in relation to housing arrangements are different to the principles proposed in the Housing Guideline. It was questioned how these inconsistencies will be addressed.	<p>Noted. Specific engagements were held with representatives of the National Treasury to discuss this concern.</p> <p>The MFMA Implementation Unit also indicated that it would consider amending the requirements in the Budget Circular once the Guideline is approved by the Board.</p> <p>To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p> <p>However, if differences remain between the budget requirements and the accounting principles in this Guideline, the municipality consider apply the Standard of GRAP on <i>Presentation of Budget Information</i></p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		when a comparison between budget and actual amounts is included in the financial statements.
3.4	The National Treasury has to play a bigger role to ensure that all spheres of government are accounting for land, and houses that are constructed in terms of the national housing programme, in a consistent manner	Noted. This comment will be submitted to the Office of the Accountant-General for its consideration.
4.	AGSA Product Champions	
4.1	<p>Many municipalities are currently accounting for the top structures in a different manner to that proposed in the Housing Guideline. It was questioned how an entity should adjust its current accounting for land and the houses constructed in terms of the national housing programme.</p> <p>It was also questioned whether any transitional arrangements will be developed to assist entities with the adoption of the proposed Housing Guideline.</p>	<p>Noted. As the Guideline does not introduce new accounting principles, an entity will be required to apply the principles in the Standard of GRAP on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> to account for prior year adjustments where they have not accounted for houses under construction, or land, as required by the Guideline. Chapter 8 has been included to explain the application of the Guideline to existing arrangements.</p> <p>As no new accounting principles were introduced, no transitional provisions were developed for the Housing Guideline. However, to allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and</i></p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<i>Agents</i> . This will also allow municipalities time to consider and implement the Guideline.
4.2	Participants agreed with the proposed accounting principles but noted that an example of the municipality as project developer should be considered.	Noted. As the Office of the Accountant-General has already developed detailed implementation guidance on the Standard of GRAP on <i>Construction Contracts</i> (GRAP 11), this comment will be submitted to them to consider developing examples on housing arrangements in the GRAP 11 implementation guidance.
4.3	<p>The proposed Housing Guideline requires that:</p> <ul style="list-style-type: none"> • Land should be classified as inventory when there is a clear intention that the municipality will use existing land for housing development. • The municipality loses control of land when an arrangement is entered into with the relevant provincial Department of Human Settlements. <p>It is unclear what the impact is of the second statement.</p> <p>The land owned by the municipality is firstly reclassified to inventory when the intention changes. Must it then be derecognised and transferred to provincial Department of Human Settlements the moment the municipality loses control?</p> <p>Up until when will the municipality account for the inventory? Consider updating the example and providing more guidance.</p>	<p>Noted.</p> <p>Paragraph 7.69 indicates that when the municipality intends to use land that it controls for housing development, that land is classified as inventory. The land should then be derecognised as the municipality's asset when an arrangement is entered into with the relevant provincial Department of Human Settlements and the municipality.</p> <p>As the assessment of control of land is based on the principles in the Interpretation of the Standard of GRAP on <i>Recognition and Derecognition of Land</i>, which is already explained in the Guideline, the Board agreed not to include any further guidance.</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

5.	Provincial Treasury – Western Cape	
5.1	Participants were concerned that the scope of the proposed Guideline excludes social housing. They proposed that all housing arrangements should be included in the scope.	<p>Noted.</p> <p>The Board specifically agreed to exclude social housing arrangements from the scope of the Housing Guideline as the nature of the social housing arrangements varies considerably between the municipalities, depending on the municipality's housing policy. Developing accounting principles for all the different types of social housing schemes will therefore be difficult.</p> <p>As a result, the Board agreed to only develop guidance for arrangements undertaken in terms of the national housing scheme as these programmes are governed by the requirements of the Housing Act and the National Housing Code.</p>
5.2	Participants requested that a definition should be included to explain "project manager" and "project developer" as the characteristics included in the Housing Guideline may not be sufficient to distinguish between the parties' functions.	<p>Noted. More detailed explanations of the activities of a project manager and project developer are included in the Housing Code. Only the relevant characteristics that have accounting consequences have been included in the Housing Guideline. As the objective of the Housing Guideline is not to duplicate the guidance in the Housing Code, the Board agreed that the explanations of the terms "project manager" and "project developer", along with the explanation of their roles and functions, is appropriate and should not be expanded.</p>
5.3	Participants disagreed that a project developer should apply GRAP 11. They believed that a project developer is actually a project manager, and should be	<p>Noted. Based on the assessment of the principles in the Standard of GRAP on <i>Accounting by Principals and Agents</i>, paragraph 3.20</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

	<p>within the scope of GRAP 109. They were also of the view that when the municipality applies its supply chain management policies to appoint contractors they are doing it on behalf of the relevant provincial Department of Human Settlements and therefore don't have the power to determine the terms and conditions of the transaction results with the third parties.</p>	<p>concluded that where a municipality is appointed as the project manager, the relevant provincial Department of Human Settlements is responsible for the appointment of the contractors and/or service providers that will construct the houses. Paragraph 1.29 has been included to explain that the municipality may facilitate the appointment of contractors and/or other service providers, but the relevant provincial Department of Human Settlements, remains responsible to fulfil the rights and obligations in terms of the arrangement entered into on its behalf by the municipality.</p>
<p>5.5</p>	<p>Participants noted that the accounting requirements in the Housing Guideline may not be aligned to the budgeting requirements.</p>	<p>Noted. Specific engagements were held with representatives of the National Treasury to discuss this concern.</p> <p>The MFMA Implementation Unit indicated that it would consider amending the requirements in the Budget Circular once the Housing Guideline is approved by the Board.</p> <p>However, if differences remain between the budget requirements and the accounting principles in this Guideline, the municipality should apply the Standard of GRAP on <i>Presentation of Budget Information</i> when a comparison between budget and actual amounts is included in the financial statements. The concern is therefore addressed through other pronouncements developed by the Board.</p>
<p>5.6</p>	<p>Participants requested examples to account for a project developer in terms of GRAP 11.</p>	<p>Noted. As the Office of the Accountant-General has already developed detailed implementation guidance on the Standard of GRAP on <i>Construction Contracts</i> (GRAP 11), this comment will be</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		submitted to them to consider developing examples on housing arrangements in the GRAP 11 implementation guidance.
6.	City of Cape Town	
6.1	It was noted that, included in the HSDG received by the City, is funding for the “People’s Housing Project” (or “Self Help Project”). This is a legacy national housing programme, but is being funded by the HSDG.	<p>Noted. The HSDG grant is a conditional grant that is allocated in the Division of Revenue Act (DORA) as a transfer from the national Department of Human Settlements for the construction of houses. Based on whether the municipality is a project manager or project developer, the grant received would be accounted for either as prescribed in the Standards of GRAP on <i>Accounting by Principals and Agents</i> or <i>Construction Contracts</i>.</p> <p>If part of the funding received by the municipality is for other projects, such as the legacy project, it should be accounted for in terms of the relevant Standard of GRAP if it does not fall within the scope of the Housing Guideline.</p>
6.2	<p>It was noted that for many of the projects undertaken by the City, the arrangements are often concluded between the City and contractor directly, but the City merely acts as the project manager (based on the rights and obligations set out in the agreement and agreed with Province).</p> <p>The proposed Guideline should provide guidance on such situations.</p>	Noted. Paragraph 1.29 has been included to explain that the municipality may facilitate the appointment of contractors and/or other service providers, but the relevant provincial Department of Human Settlements, remains responsible to fulfil the rights and obligations in terms of the arrangement entered into on its behalf by the municipality.
6.3	As the proposed Guideline requires the separation of the USDG and HSDG grants into various components, it is important to emphasise that the revenue	Noted. The classification of the revenue will depend on whether the municipality is appointed as project developer or project manager.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

	should be appropriately classified as either exchange or non-exchange.	Judgement should be applied in considering whether the revenue should be classified as exchange, or non-exchange.
7.	Provincial Treasury Mpumalanga	
7.1	Respondents questioned who should account for land donated to a department of Human Settlements, but the municipality remains the registered title deed holder of the land.	<p>This is addressed in paragraphs 7.53 to 7.68 of the Housing Guideline. Paragraphs 7.57 and 7.58 explain that a municipality is required to have legal ownership of land transferred or donated to it in order for that land to be used for housing development purposes. Although legal ownership is transferred to the municipality, substance over form of the transaction needs to be considered. This requires an assessment of the control criteria of land.</p> <p>In determining whether the land acquired through the donation or transfer is recognised as an asset, the municipality considers whether if, at the time of acquiring the land, it has entered into an arrangement with the provincial Department of Human Settlements.</p>
7.2	It was questioned at what point in time the municipality should account for the land as its inventory.	<p>Paragraph 7.69 indicates that when the municipality intends to use land that it controls for housing development, that land is classified as inventory.</p> <p>The land should then be derecognised as the municipality's asset when an arrangement is entered into with the relevant provincial Department of Human Settlements and the municipality. As the assessment of control of land is based on the principles in the Interpretation of the Standard of GRAP on <i>Recognition and</i></p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<i>Derecognition of Land</i> , which is already explained in the Guideline, the Board agreed not to include any further guidance.
7.3	It was questioned whether legal title of the land should be transferred from the municipality to the relevant department of Human Settlements and then again from the Department to the beneficiary when the SLA/MOU is signed between the municipality and the Department.	Noted. The objective of the Guideline is to provide accounting guidance on accounting for housing arrangements undertaken in terms of the national housing programme. Transferring the legal title to another entity is outside the scope of this Guideline. Entities should then consider the guidance in the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i> to assess control of the land.
8.	SALGA and IMFO joint consultative session (Gauteng, Limpopo, North West, Mpumalanga)	
8.1	Participants supported the accounting principles prescribed in the Housing Guideline in relation to the top structures and the accounting for the land.	Noted. No further action required.
8.2	Participants questioned which entity will incur the costs of transferring the land to the beneficiary, and which entity should account for such costs.	The Board is not in a position to comment on which entity should incur the costs of transferring the land. The terms and conditions set out in the binding arrangement entered into between the municipality and the relevant Department of Human Settlements, should be assessed to determine who should account for costs incurred to transfer the land to the beneficiary.
8.3	It was questioned whether the metropolitan municipalities always participate in the housing arrangements as level two accredited municipalities.	The Housing Code notes that a project developer assumes the role and responsibilities of a project manager as a level two accredited



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>municipality. This clarification has been included in paragraph 1.19.</p> <p>Therefore, a metropolitan municipality that has been granted a level two accreditation can either be a project manager, or project developer in an individual housing programme, and perform different responsibilities in different housing programmes. The municipality should therefore assess each individual housing arrangement that it undertakes in terms of the national housing programme to conclude whether it acts as project developer, or project manager for that specific arrangement.</p>
8.4	<p>It was questioned what the impact would be if the completed houses are never transferred to the beneficiaries – will the municipality then remain the legal owner of the property and land.</p>	<p>Noted. This could be the case, but it does not mean that the municipality controls the land. The Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i> requires an entity to assess criteria to demonstrate that it controls the land. Legal ownership is one method of assessing control of land, but the entity also needs demonstrate that it has a right to direct access to the land, and to restrict or deny the access of others to the land before concluding that it controls the land.</p> <p>This assessment has been included in paragraphs 7.9 to 7.24 of the Guideline.</p>
8.5	<p>It was noted that in some instances the relevant province never reimburses the municipality for costs incurred in terms of the national housing programme. Some action or procedures should be put in place to ensure that costs incurred on behalf of the municipality will be reimbursed by the relevant province.</p>	<p>Noted. As this is a practical challenge in implementing the national housing programme, the comment will be submitted to the National Treasury and the Department of Human Settlements for their consideration.</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

8.6	<p>It was questioned how a municipality should account for costs where, for example, its uses its inspectors to perform certain functions, and these costs are reimbursed, or are not reimbursed by the relevant provincial Department of Human Settlements.</p> <p>Likewise, how should the municipality account for costs incurred to eligible beneficiaries?</p>	<p>The municipality should consider whether these costs are reimbursed by the relevant provincial Department of Human Settlements and included in the HSDG grant. If these costs are reimbursed, the municipality should account for the costs either as prescribed in the Standards of GRAP on <i>Accounting by Principals and Agents</i> or <i>Construction Contracts</i>, depending on the municipality's assessment of whether it acts as project manager, or project developer in the specific housing arrangement.</p> <p>Paragraph 4.34 has been expanded to explain that when the municipality acts as an agent (i.e. project manager), it should only recognise revenue and expenses that it receives or incurs in return for executing the transactions on behalf of the principal. This includes expenses incurred for which the municipality will not be reimbursed by the relevant provincial Department of Human Settlements.</p> <p>In addition, paragraph 5.20 was added to explain when the municipality is a project developer in a housing arrangement, it needs to assess whether expenses incurred, which will not be reimbursed by the relevant Department of Human Settlements, comprise contract costs as outlined in paragraph 5.16 of the Guideline. Based on this assessment, the costs incurred should be recognised in accordance with the applicable Standard of GRAP.</p>
8.7	<p>The need for transitional guidance was emphasised to avoid unnecessary qualifications where municipalities did not account for the land as proposed in</p>	<p>Noted. As the Guideline does not introduce new accounting principles, an entity will be required to apply the principles in the Standard of GRAP on <i>Accounting Policies, Changes in Accounting</i></p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

	the draft Housing Guideline.	<p><i>Estimates and Errors</i> to account for prior year adjustments where they have not accounted for houses under construction, or land, as required by the Guideline. Chapter 8 has been included to explain the application of the Guideline to existing arrangements.</p> <p>As no new accounting principles were introduced, no transitional provisions were developed. However, to allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>. This will also allow municipalities time to consider and implement the Housing Guideline.</p>
9.	SALGA and IMFO joint consultative session (Eastern Cape, Free State and Northern Cape)	
9.1	<p>Participants agreed with the principles proposed in the Housing Guideline in relation to the construction of the houses and in accounting for land.</p> <p>The scope exclusion of social housing was also supported.</p>	Noted. No further action required.
10.	MFMA Implementation Unit	
10.1	The proposed principles in the Housing Guideline were supported by stakeholders present.	Noted. No further action required.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

	<p>It was noted that the budget circular requirements will be revisited in line with the research and conclusions in the proposed Guideline. At the time that the budget circular was issued, there was a gap in the accounting for housing arrangements, and the budget circular was issued to address this gap.</p>	<p>Noted. To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p>
10.2	<p>It was noted that one of the practical challenges with the application of the proposed Guideline will be the role clarification between the relevant department of Human Settlements and the municipality involved in the housing development to ensure that the parties understand each other's roles and functions.</p> <p>This clarification will also ensure that the responsible party or parties will account for the housing arrangement appropriately in its financial statements.</p>	<p>Noted. As this is a practical challenge in implementing the Guideline, the comment will be submitted to the National Treasury and the Department of Human Settlements for their consideration.</p>
10.3	<p>The guidance to be applied by national and provincial departments in relation to arrangements undertaken in terms of the national housing programme needs to be updated and aligned with the principles in the proposed Guideline.</p>	<p>Noted. Specific engagements were held with representatives of the National Treasury to discuss this concern.</p> <p>The OAG indicated that the departmental guidance will be aligned with the requirements in the Housing Guideline once it is approved by the Board.</p> <p>To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i> .
10.4	It was questioned whether, and when the proposed guidance will be rolled out to level 3 municipalities, as this is currently scoped out in the proposed Guideline.	<p>Noted. The accounting considerations for level three accredited municipalities are not addressed in this Guideline. At the time of drafting the Housing Guideline, an Accreditation Framework for level three municipalities has not yet been drafted and the roles and responsibilities in terms of the existing legislative requirements could therefore not be assessed.</p> <p>When a level three accreditation is granted to a municipality and the level three Accreditation Framework is in place, the principles in the Housing Guideline will be assessed against the Framework, and the Housing Guideline will be updated accordingly.</p>
10.5	It was proposed that the reference to “dual purpose funding” be amended to “multi-purpose funding”.	Noted. The term has been amended in the heading to paragraph 1.51, as proposed.
10.6	<p>It was noted that in many instances, a municipality contributes own funding for the construction of the houses. An example was given where a metropolitan municipality contributed more than half of the funding per house.</p> <p>It was questioned how, and who should account for the additional funding provided by the municipality for which it will not be reimbursed.</p>	<p>Noted.</p> <p>Paragraph 4.34 has been expanded to explain that when the municipality acts as an agent (i.e. project manager), it should only recognise revenue and expenses that it receives or incurs in return</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>for executing the transactions on behalf of the principal. This includes expenses incurred for which the municipality will not be reimbursed by the relevant provincial Department of Human Settlements.</p> <p>In addition, paragraph 5.20 was added to explain when the municipality is a project developer in a housing arrangement, it needs to assess whether expenses incurred, which will not be reimbursed by the relevant Department of Human Settlements, comprise contract costs as outlined in paragraph 5.16 of the Guideline. Based on this assessment, the costs incurred should be recognised in accordance with the applicable Standard of GRAP.</p>
11.	Public Finance and Budget Unit at National Treasury	
11.1	<p>It was noted that social housing undertaken by municipalities also needs to adhere to the requirements in the Housing Code.</p> <p>It was, however, noted that social housing does not involve the transfer of a property and constructed house to a beneficiary, but rather, the renting of constructed houses to beneficiaries and the intention is to never transfer ownership thereof.</p> <p>It was therefore proposed that the scope exclusion for social housing should be further clarified in the proposed Housing Guideline.</p>	<p>Noted.</p> <p>The Board specifically agreed to exclude social housing arrangements from the scope of the Housing Guideline as the nature of the social housing arrangements varies considerably between the municipalities, depending on the municipality's housing policy. Developing accounting principles for all the different types of social housing schemes will therefore be difficult. This explanation is included in the scope section of the Guideline. As a result, the Board agreed to only develop guidance for arrangements undertaken in terms of the national housing programme.</p> <p>In addition, the introduction also clarifies that the Housing Guideline does not deal with the accounting for those houses that are rented by</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		municipalities as part of their housing stock to third parties, and those houses that are refurbished prior to their rental or sale to third parties or transfer to beneficiaries.
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**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

11.2	From a budget perspective, consideration should be given to how the grant funding is transferred from the national department to the relevant provincial department, and from the provincial department to the municipality once the proposed guidance becomes effective.	Noted. As this is a practical implementation matter that will be addressed by the Public Finance and Budget Unit, no further action is required.
11.3	Guidance on accounting for houses during their construction and on completion should be provided to the provincial departments to ensure that the assets are accounted for appropriately in government.	<p>Noted.</p> <p>Specific engagements were held with representatives of the National Treasury to discuss this concern.</p> <p>The OAG indicated that the departmental guidance will be aligned with the requirements in the Housing Guideline once it is approved by the Board.</p> <p>To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p>
12.	Roundtable discussion with various stakeholders	
12.1	It was questioned whether the accounting principles will change if a district municipality participates in the housing arrangement.	Noted. A district municipality that participates in the national housing programme should apply the principles in the Guideline.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

12.2	The proposed Housing Guideline should clarify that, even though the binding arrangement may refer to the municipality as the project manager or project developer in the arrangement, the municipality should still assess its roles and functions in the housing arrangement to conclude whether it acts as project developer or project manager in the arrangement.	Noted. Paragraph 3.16 was added to explain that even though the binding arrangement may use the term “project manager” or “project developer” for specific parties to the arrangement, the municipality should still assess its roles and responsibilities to determine whether it is undertaking the transaction in the housing arrangement as a project developer or project manager based on the principles in this Guideline.
12.3	The proposed Housing Guideline should also consider that amendments could be made to the binding arrangement after it is concluded between the municipality and the relevant provincial Department of Human Settlements.	Noted. Paragraph 3.12 has been included to require that when subsequent changes are made to the arrangement concluded between the municipality and the relevant provincial Department of Human Settlements, the municipality needs to re-consider the application of the Standard of GRAP on <i>Accounting by Principals and Agents</i> based on the amended arrangement.
12.4	It was proposed that the Housing Guideline should clarify that when a municipality determines that it controls a portion of the land after completion of the township development, it should not derecognise all the land under its control when the arrangement is signed with the relevant provincial Department of Human Settlements, but that the portion it controls should remain an asset in its financial statements.	Noted. Paragraph 7.86 clarifies that, if a municipality at the time of entering into an arrangement with the provincial Department of Human Settlements, concludes that it controls a portion of vacant land, it should account for that land as its asset, and therefore, only derecognise the portion that it does not control after entering into the arrangement with the relevant provincial Department of Human Settlements. This additional clarification has been included in paragraph 7.86, and examples have been included in paragraph 7.91 to explain this principle. The paragraph further clarifies that once the township development is



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>completed, revisions may need to be made to the values of the land initially recognised in accordance with the applicable Standard of GRAP. This revision should be treated as a change in accounting estimate in accordance with the Standard of GRAP on <i>Changes in Accounting Policies, Estimates and Errors</i>.</p> <p>As clarification is already included in the Housing Guideline, no further amendment was made by the Board.</p>
12.5	It was questioned how the portion of land over which the entity will retain ownership, will be determined when an arrangement is entered into with the relevant Department of Human Settlements.	<p>Paragraph 7.87 explains that in determining the portions of vacant land it controls, a municipality may use township planning guidelines and frameworks, policies or similar documents in making an estimation of those portions.</p> <p>As clarification is already included in the Housing Guideline, no further amendment was made by the Board.</p>
13.	North West Public Sector Forum	
13.1	Participants supported and agreed with the principles proposed in the Housing Guideline.	Noted. No further action required.
13.2	It was questioned whether the National Treasury is aware of the proposed Guidance and whether they intend aligning the departmental guidance on housing arrangements with the principles proposed in the Housing Guideline.	<p>Noted.</p> <p>Specific engagements were held with representatives of the National Treasury to discuss this concern.</p> <p>The OAG indicated that the departmental guidance will be aligned</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE
GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

		<p>with the requirements in the Housing Guideline once it is approved by the Board.</p> <p>To allow the National Treasury sufficient time to update its guidance and allow entities to implement the amendments, the Board agreed that the Guideline should be made mandatory in the GRAP Reporting Framework on the later of (a) 1 April 2019 when the Interpretation of the Standards of GRAP on <i>Recognition or Derecognition of Land</i> is effective, or (b) when the Minister of Finance determines an effective date for the Standard of GRAP on <i>Accounting by Principals and Agents</i>.</p>
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