



ANALYSIS AND RESPONSES TO WRITTEN COMMENT

RECEIVED ON

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

(ED 140)

RESPONSES TO THE WRITTEN 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 results of the formal comment process are summarised below, and includes the Board's responses to the comment received.

The Board received three comment letters from the respondents listed in the table on the next page.

In addition to the comment letters received, the proposed Guideline was also discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or meetings. The summary of comment received during these discussions is included in a separate analysis.

CLASSIFICATION OF WRITTEN 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. | EY | | | | √ | |
| 2. | Altimax | | √ | | | |
| 3. | Drakenstein municipality | | √ | | | |
| | Total | 3 | 2 | 0 | 1 | 0 |



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

| COMMENTS ON ED 140 ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME | | |
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| No. | Comments | Board's response |
| | SPECIFIC MATTERS FOR COMMENT | |
| | <p>Specific Matter for Comment 1</p> <p><i>Do you agree with the proposed accounting principles to be applied by a project manager and project developer in accounting for arrangements undertaken in terms of the national housing programme? Please explain your response.</i></p> | |
| 1.1 | EY | |
| 1.1.1 | <p>Level 1 Accredited Municipality – Project Manager</p> <p>Municipality acts as an agent:</p> <p>We agree that based on the considerations mentioned in the Guide, and the application of those considerations to the fact pattern, the municipality would in this case be an agent of the provincial Department of Human Settlements.</p> <p>Accounting treatment: Resources received and expenses incurred as an agent</p> <p>We agree that where the municipality acts as an agent of the provincial Department of Human Settlements, it would not recognise revenue or expenses related to the project in its financial statements. The municipality would only recognise revenue it receives for the performance of the function, for example any fees, commissions, administration fees etc.</p> | Noted. No further action required. |



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

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| <p>1.1.2</p> | <p>Level 2 Accredited Municipality – Project Developer</p> <p>Assessing whether the municipality acts as an agent or a principal:</p> <p>Where the municipality is responsible for the construction of the houses, but the mandate to provide housing remains with the provincial Department of Human Settlements, the municipality is only providing construction services to the province.</p> <p>Where the municipality is providing a construction service to the provincial Department of Human Settlements, we agree that GRAP 11 should be used when accounting for these transactions. This is due to the fact that the municipality would be constructing houses for the province (for the province to deliver to beneficiaries) for a fee (the grant). [However, care should be taken in applying this assumption across all transactions indiscriminately, as there may hypothetically be elements within the binding arrangement wherein the municipality, although generally a contractor / developer, still acts as an agent for the province in relation to a specific transaction].</p> <p>We agree that in the above scenario the grant revenue received for the construction of the houses should be accounted for as contract revenue (i.e. exchange transactions) and that expenses incurred should be accounted for as contract expenses. The municipality should not account for the houses as assets as they are constructed for the provincial Department of Human Settlements and should be accounted for by the province.</p> <p>We further agree that any payments due from the relevant provincial Department of Human Settlements should be recognised as amounts due from customers for work performed, and any advance payments from the relevant provincial Department of Human Settlement should be recognised as amounts due to customers.</p> | <p>Noted. No further action required.</p> <p>Noted and agreed. As a project developer assumes the role and responsibilities of a project manager as a level two accredited municipality, the Guideline requires in paragraph 3.2 that a municipality should assess the application of GRAP 109 for each individual arrangement it undertakes</p> <p>.</p> <p>Noted. No further action required.</p> <p>Noted. No further action required.</p> |
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**ANALYSIS AND RESPONSES TO COMMENTS ON THE
PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

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| 1.1.3 | <p>Accounting for the accreditation fee, commission, administration or transaction fee received</p> <p>We agree that any revenue received as an accreditation fee, commission, administration or transaction fee should be accounted for as revenue from an exchange transaction in terms of GRAP 9.</p> | Noted. No further action required. |
| 1.2 | Altimax | |
| 1.2.1 | Yes we agree with the proposed accounting principles. | Noted. No further action required. |
| 1.3 | Drakenstein municipality | |
| 1.3.1 | <p>Yes, I agree with the principle as applied where a Municipality is regarded as a project manager (i.e. agent), as the municipality's role is merely as local conduit to fulfil the mandate of the Provincial department (for example as accounts administrator, to ensure that contractors are paid locally). The accounting principles applied by a project manager (agent), is the same as what is currently being applied by most municipalities in the Western Cape.</p> <p>I further agree with the accounting principles for a project developer, although not the current principles applied (most Western Cape Municipalities apply a "principal" approach whereby all completed houses not yet handed over and houses WIP is recognised as inventory). The principles as set out in the guideline was previously applied and I agree that it remains the most prudent approach.</p> | Noted. No further action required. |



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

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| | <p>Specific Matter for Comment 2</p> <p>(a) Will non-accredited municipalities be able to apply the principles in the Guideline based on the assumption that their roles and responsibilities are similar to that of level one and level two accredited municipalities as noted in paragraphs 1.22 to 1.35?</p> <p>(b) Are there any additional responsibilities that they are required to undertake in arrangements undertaken in terms of the national housing programme that need to be addressed in the Guideline?</p> <p>If yes, could you please provide details of what these additional responsibilities are that need to be addressed in the Guideline?</p> | |
| <p>2.1</p> | <p>EY</p> | |
| <p>2.1.1</p> | <p>(a) We believe that non-accredited municipalities will be able to apply the principles in the Guideline based on the assumption that the responsibilities will be similar to those of level one or level two municipalities.</p> <p>We would recommend that the Guideline provides some guidance, for example a list of indicators, to assist non-accredited municipalities to determine whether they are fulfilling the functions of a level one or a level two accredited municipality. This will assist the municipality to apply the correct accounting principles.</p> <p>(b) We are not aware of additional responsibilities that municipalities have to undertake.</p> | <p>Noted. No further action required.</p> <p>Noted. Paragraphs 1.22 to 1.37 specifically explain the roles and responsibilities of a level one and level two accredited municipality. These aspects should be considered by a non-accredited municipality to assess whether it fulfils the functions of a level one or two accredited municipality. A reference to the roles and responsibilities set out in paragraphs 1.22 to 1.37 has been included in paragraph 1.39 to clarify what non-accredited municipalities should consider.</p> <p>Noted. No further action required.</p> |



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

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| 2.2 | Altimax | |
| 2.2.1 | <p>2(a). We are currently unaware of any non-accredited municipalities that apply the principles in the guideline based on the assumptions noted in paragraphs 1.22 to 1.35.</p> <p>2(b). Not that we are aware of.</p> | Noted. No further action required. |
| 2.3 | Drakenstein municipality | |
| 2.3.1 | I believe so, Drakenstein is non-accredited, but it is possible to determine the assumed level, by interpreting the agreement based on the guideline. | Noted. No further action required. |
| <p>Specific Matter for Comment 3</p> <p>Are there any additional regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Guideline?</p> <p>If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Guideline.</p> | | |
| 3.1 | EY | |
| 3.1.1 | <p>We are not currently aware of any additional regulatory issues that exist in the South African environment.</p> <p>We are concerned that the binding arrangements entered into between the municipality and the provincial Department of Human Settlements may not provide sufficiently detailed information for a non-accredited municipality to determine whether it performs the function of a project manager or a project developer. We are further concerned that a lot of emphasis has been placed on the Implementation Protocol Agreement, Service Level Agreement, Memorandum of</p> | <p style="text-align: center;">Noted. No further action required.</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</p> |



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

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| | <p>Understanding or other similar agreement and that the assumption is made that these documents will exist or be detailed enough to enable entities to determine their responsibilities with regards to the housing arrangements. These documents may not necessarily contain sufficient details for these assessments to be made, in which case it may be necessary for the municipality to make reasonable assumptions based on industry practice.</p> | <p>Agreement, a Service Level Agreement, a Memorandum of Understanding or similar arrangement.</p> <p>As a result of the legislative requirements that certain documentation needs to be in place, the Board concluded that a binding arrangement needs to be in place between the municipality and the relevant provincial Department of Human Settlements that sets out the parties' rights and obligations. 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 Guideline, no amendment was made to the principle that requires the existence of a binding arrangement.</p> |
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**ANALYSIS AND RESPONSES TO COMMENTS ON THE
PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

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| 3.2 | Altimax | |
| 3.2.1 | Not that we are aware of. | Noted. No further action required. |
| 3.3 | Drakenstein municipality | |
| 3.3.1 | Not that I am aware of. | Noted. No further action required. |
| | <p>Specific Matter for Comment 4</p> <p>In your view, what are the costs and benefits of the proposals relative to the current accounting that are applied by entities for arrangements undertaken in terms of the national housing programme. In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.</p> | |
| 4.1 | EY | |
| 4.1.1 | No detailed analysis of costs has been performed. | Noted. No further action required. |
| 4.2 | Altimax | |
| 4.2.1 | Currently we do not have any clients performing an arrangement in terms of the national housing programme. | Noted. No further action required. |
| 4.3 | Drakenstein municipality | |
| 4.3.1 | The guidance will ensure that we are able to budget more accurately and attribute to more reliable reporting of performance against the budget, especially as projects where we would be considered to be the project developer, there would not be the need to recognise inventory at | Noted. No further action required. |



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

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| | year end for WIP houses (from a budget perspective always a problem as this principle leads to false “underspending” in one year and “overspending” in the next). | |
| Specific Matter for Comment 5 | | |
| In your view, should the National Treasury consider the development of any further implementation guidance in relation to arrangements undertaken in terms of the national housing programme? Please explain your response. | | |
| 5.1 | EY | |
| 5.1.1 | It is our experience that the sector usually values additional detailed implementation guidance on such matters, as long as this does not become a “rule” that is enforced without regard for the underlying principles applied to each individual scenario. There is perhaps a risk that not all arrangements are identical, despite them being entered into in accordance with the broader legislative framework outlined in the background to the Guideline. | Noted. This comment will be submitted to the OAG for its consideration. |
| 5.2 | Altimax | |
| 5.2.1 | Yes, it might assist in providing more examples for clarification purposes. | Noted. This comment will be submitted to the OAG for its consideration. |
| 5.3 | Drakenstein municipality | |
| 5.3.1 | National Treasury might want to expand on how the following programmes will fit into the accreditation levels and the ASB guideline <ul style="list-style-type: none"> • Integrated Residential Development Programme (IRDP) • Upgrading of Informal Settlements Programme (UISP) | Noted. This comment will be submitted to the OAG for its consideration |



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

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| | <ul style="list-style-type: none"> • Institutional Programme • Community Residential Units Programme (CRU) • Consolidation Subsidy Programme • People’s Housing Process (EPHP). | |
| Specific Matter for Comment 6 | | |
| In your view, overall, does the proposed accounting in the Guideline result in financial statements that would be useful to users? Please explain your response. | | |
| 6.1 | EY | |
| 6.1.1 | Yes, clarification of the roles of the three spheres of government involved in these housing schemes is useful in determining performance and accountability with respect to the provision of housing. | Noted. No further action required. |
| 6.2 | Altimax | |
| 6.2.1 | Currently, we are of the view that the proposed accounting might result in useful information provided to users. | Noted. No further action required. |
| 6.3 | Drakenstein municipality | |
| 6.3.1 | Yes, as accurate performance would be more clear in instances where the Municipality is regarded as the project developer. | Noted. No further action required. |



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

| Specific Matter for Comment 7 | |
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| In your view, do you agree with the accounting principles relating to the accounting for land? Please explain your response | |
| 7.1 | EY |
| 7.1.1 | <p>We agree with the accounting principles proposed for the accounting for land. We agree that the land should be accounted for as inventory when the municipality identifies it for use in a housing development. This would be appropriate if the municipality intends to use the land to distribute it to the provincial Department of Human Settlements for use in the housing development.</p> <p>We also agree that the land should be derecognised in the financial records of the municipality when the provincial Department of Human Settlements becomes responsible for the land in terms of the binding arrangement between the parties. Currently the iGRAP seems to indicate that the land should be derecognized as soon as that agreement is entered into. Paragraph 7.24 does indicate that each agreement should be assessed when determining indicators of control. We would suggest that this be more clearly emphasised in the iGRAP as in our view it is currently not prominent enough in the remainder of the treatment of land discussions.</p> |
| | <p>Noted. No further action required.</p> <p>Noted. Paragraph 7.10 explains that the principles in the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i> (IGRAP) should be applied to assess when an entity should recognise and derecognise land as an asset. Paragraphs 7.16 to 7.24 apply the control criteria as included in IGRAP 18 to conclude when land should be derecognised by a municipality when the provincial Department of Human Settlements becomes responsible for the land in terms of the binding arrangement between the parties. In conclusion, paragraph 7.24 indicates that in assessing control of land, a municipality must consider the terms and conditions of each arrangement entered into with the provincial Department of Human Settlements, the requirements of legislation or similar means, and any other factors, in relation to the control criteria.</p> |



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

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| | | The Board agreed that the guidance provided in section 7 is appropriate to assess control of land. As such, no additional clarification was provided. |
| 7.2 | Altimax | |
| 7.2.1 | No, currently the guideline doesn't address the timing and guidance on the estimated de-recognition of the portion of land based on past practices. | <p>Noted.</p> <p>Paragraph 7.23 concludes that the land is controlled by the municipality until an arrangement is entered into with the relevant provincial Department of Human Settlements. The application of this principle is then explained in the illustrative examples included after paragraph 7.68.</p> <p>In addition, the principles in the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i> (IGRAP) should be applied to assess when an entity should derecognise land as its asset. Paragraph 7.85 also clarifies that an assessment of the recognition of vacant land should be made at inception of the arrangement with the relevant provincial Department of Human Settlements, using the principles in the IGRAP. In determining which 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. Paragraph 7.86 clarifies that, when vacant</p> |



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

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| | | <p>land is recognised as an asset, its classification is dependent on how it is expected to be used, and this determines the relevant Standard of GRAP that should be applied to account for it.</p> <p>Examples have been included in paragraph 7.91 to illustrate how the municipality should recognise the portion of land that it controls after entering into an arrangement with the relevant Department of Human Settlements, and where land is controlled by the relevant Department of Human Settlements. Other than the example, the Board agreed that the guidance on the derecognition of land is appropriate and that no additional guidance should be included.</p> |
| 7.3 | Drakenstein municipality | |
| 7.3.1 | <p>The guideline does provide good guidance, but there are still grey areas that should be addressed.</p> <p style="margin-left: 40px;">a. Timing of the date of decision on which a Council indicates its intention to utilise a piece of land for housing. This normally done when a council approves the “housing pipeline” for a certain period (i.e. the housing projects that will be executed in the next 5 years for example).</p> | <p>Noted. Paragraph 7.26 notes that when the municipality intends to use existing land owned by it for the purposes of housing development, the classification of that land may change as a result of the change in its expected use. This change in intention may be evidenced through the approval of a municipality’s MHSP, IDP or similar documents.</p> <p>Paragraph 7.26 has been expanded to clarify that a decision by a municipal council to use land for housing development, also indicates a change in use.</p> |



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

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| | <p>b. guidance on the treatment land that will be retained after the subdivision (public open spaces, land for infrastructure etc). Should an estimate be done on the portion of the total land parcel that will be retained and a) that portion remain in PPE and the other estimated portion to be distributed transferred to inventory on date of council approval or b) the whole parcel be classified as inventory and the retained portion be transferred back to PPE when a reliable and accurate estimate can be done.</p> <p>Practically both options hold challenges, but the major practical consideration is the following: I am unsure how the re-estimation of the value of the retained portion that is left in PPE (Option a) would be accounted for? Option b will be easier in terms of GRAP 12 to account for the changes in estimated values and then when reliable information is available to transfer those portions that are retained back to PPE.</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. Thus, the entity should account for land to be used for housing development as inventory on the date when its enters into the arrangement with the provincial Department of Human Settlements, while the portion it will retain should be accounted for in terms of the applicable Standard of GRAP based on its intended use of the land. An example has been included in paragraph 7.91 to explain this principle.</p> <p>With regards to the comment on the revisions to estimates of vacant land recognised, paragraph 7.86 requires that once the township development is completed, revisions may need to be made to the values of the land initially recognised, which 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>. The Board agreed that this clarification is sufficient to address the concern raised.</p> |
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**ANALYSIS AND RESPONSES TO COMMENTS ON THE
PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS
UNDERTAKEN ITO THE NATIONAL HOUSING PROGRAMME**

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| Specific Matter for Comment 8 | | |
| In your view, are there other ways that a municipality can acquire land for housing development that are not dealt with in the Guideline? Please provide sufficient detail of how the land is acquired, and what additional considerations need to be applied. Please explain your answer. | | |
| 8.1 | EY | |
| 8.1.1 | We are not aware of any other means that a municipality can acquire land for a housing development. | Noted. No further action required. |
| 8.2 | Altimax | |
| 8.2.1 | No, not that we are aware of. | Noted. No further action required. |
| 8.3 | Drakenstein municipality | |
| 8.3.1 | Not that I am aware of. | Noted. No further action required. |
| Specific Matter for Comment 9 | | |
| In your view, are there any other factors that should be considered when assessing the indicators of control in relation to land that is used for housing development? Please explain you answer. | | |
| 9.1 | EY | |
| 9.1.1 | We are not aware of and other indicators of control that should be considered when accounting for land that is to be used for a housing development. | Noted. No further action required. |



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

| 9.2 | Altimax | |
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| | <p>Yes, please provide guidance on de-recognition to the extent that the municipality loses control of the land when it enters into an arrangement with the province.</p> | <p>Noted. Paragraph 7.23 concludes that the land is controlled by the municipality until an arrangement is entered into with the relevant provincial Department of Human Settlements. The application of this principle is also explained in the illustrative examples included after paragraph 7.68.</p> <p>In addition, the principles in the Interpretation of the Standards of GRAP on <i>Recognition and Derecognition of Land</i> (IGRAP) should be applied to assess when an entity should derecognise land as its asset. Paragraph 7.86 also clarifies that an assessment of the recognition of vacant land should be made at inception of the arrangement with the relevant provincial Department of Human Settlements, using the principles in the IGRAP. In determining which 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>Therefore, other than including a reference in paragraph 7.69 to the IGRAP, the Board agreed that the guidance on the derecognition of land is appropriate.</p> |



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

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| 9.2.2 | Provide assistance in the accounting treatment where change in the binding arrangement occurs – where the municipality is the project developer and appoints a contractor who defaults on delivery and the province makes the decision to retain the project. | Noted. Paragraph 3.12 has been included to explain that when changes are made to the initial binding arrangement concluded between the municipality and the relevant Department of Human Settlements, the revised agreement needs to be re-assessed using the principles in the Standard of GRAP on Accounting by <i>Principals and Agents</i> . |
| 9.3 | Drakenstein municipality | |
| 9.3.1 | Not that I am aware of. | Noted. No further action required. |