


**Guideline on *Accounting*
for Arrangements
Undertaken in Terms of
the National Housing
*Programme***





Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



Scope inclusion

- Housing development undertaken by municipalities as part of the national housing programme
- Accredited municipalities (level 1 and 2)
- Non-accredited municipalities
- Other entities that apply accrual accounting can apply by analogy when they participate in national housing programme



Scope exclusion

- Level 3 accredited municipalities
- Housing schemes undertaken by municipality in their own capacity
- Provincial housing funds
 - established to secure flow of funds from national dept to provincial dept
 - no longer used for flow of funding





Initial application

- Apply GRAP 3 to any changes arising from application of Guideline.






Understanding the housing landscape





Legislative framework

- Housing Act – No 107 of 1997
 - Roles and responsibilities of different spheres
 - National Housing Code
 - Establish accreditation framework
 - Sets national housing policy
 - Accreditation Framework
 - Sets criteria for participation in housing programme
 - Accreditation approved by MEC
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Accreditation framework

- Framework allocates different roles and responsibilities attributable to each level of accreditation
- Terms and conditions that need to be assessed are set out in:
 - Implementation protocol agreement – high level roles & responsibilities
 - Service level agreement or memorandum of understanding - details roles & responsibilities



Accreditation framework

Municipal participation can either be:

Delegation

- Exercise of function outlined in legislation on behalf of delegating authority
- Ultimate authority vests with province who can revoke delegation

Assignment

- Transfer of roles & responsibilities to municipality
- Transfer of planning, financial & legal accountability

Roles & responsibilities

Level One

Level Two

Planning

- Identify and plan for local housing

- Similar to level one's roles and responsibilities.

Contract management

Project manager role

- Identifying potential contractors
- Preparing contracts and project agreements
- Using municipal inspectorate to monitor projects
- Payment of contractors on instruction from province

- Municipality can act as a project manager and project developer

Role as project developer

- Construction of houses
- Appointing contractors for housing development
- Payment of contractors based on contract entered into with them

Roles & responsibilities

Level One

Level Two

Beneficiary management

- Receiving application forms from beneficiaries
- Submit application forms received to the province
- Marketing of stands
- Facilitating arrangements with beneficiaries
- Handing over of house

In addition to level one's roles and responsibilities:

- Implementation of a Housing Subsidy System (HSS)
- Capturing and processing of application forms received on the HSS


Funding of programmes

- Funding received from province (HSDG)

- Similar to level one



Sources of funding

- Human Settlement Development Grant (HSDG)
 - Urban Settlement Development Grant (USDG)
 - Conditional grant
 - Land acquisition from 3rd parties
 - Portion may be allocated for infrastructure
 - Paid to metro's
 - Multi-purpose funding
 - Non-metro's for infrastructure development
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Key accounting considerations






Determine the role the municipality plays in a housing arrangement

Key consideration in determining accounting, is the role/capacity within which a municipality acts in relation to:


- Beneficiaries.
- Contractors/service providers (project manager or developer)

First step is to consider whether (a) there is a principal-agent arrangement, and (b) if yes, role is that of a principal or agent.





Is there a principal-agent arrangement

- 3 aspects need to be considered to determine if housing arrangement is within scope of GRAP 109:
 - transactions undertaken in terms of binding arrangement
 - 3rd parties with whom transactions are undertaken
 - are transactions undertaken on behalf of another entity
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Is there a principal-agent arrangement

- Principal-agent arrangement exists for transactions with beneficiaries:

Binding arrangement


3rd parties (beneficiaries)

Undertaking “transactions” on behalf of Dept





Is there a principal-agent arrangement

- For transactions undertaken with contractors and/or other service providers
 - principal-agent arrangement exists when municipality appointed as project manager
 - principal-agent arrangement does not exist when municipality appointed as project developer
 - Assess each arrangement on its own
- 



Municipality as project manager

- Is the municipality the agent or principal?
- Apply criteria in GRAP 109 to assess if agent:
 - Does not have the power to determine the significant terms and conditions of transaction.
 - Does not have the ability to use all or substantially all of the resources that result from transaction.
 - Is not exposed to variability in the results of transaction.



Municipality as project manager

- Based on review of legislation, municipality acts as agent (will need to assess each arrangement).
- Recognise revenue and expenses incurred in executing transactions on behalf.
- HSDG not recognised as municipal revenue but recorded as liability.
- Principal account for revenue/expenses with 3rd parties i.e. grant and constructed houses during and after completion.
- No accounting for houses.



Municipality as project developer

- GRAP 109 not applicable as no principal-agent arrangement
- Municipality is **contractor** → GRAP 11
 - Recognition of grant received as contract revenue
 - Recognition of expenses incurred as contract expenses → amounts due and from provincial department of Human Settlements
 - No accounting for houses during construction or after completion





Other accounting issues related to housing






Other accounting issues

- Accounting for revenue received
- Accounting for land, infrastructure and other assets.





Accreditation or other fees

- Accreditation fee → formula used, based on service provided.
 - Commission, administration or transaction fee
 - For undertaking transactions on behalf of provincial department
 - Apply principles in GRAP 9
 - If related only to construction → can apply GRAP 11
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Accounting for land

- Principles from IGRAP 18 to assess control
- Right to direct access to land, and restrict or deny access of others
 - direct use of land's future economic benefits/ service potential to provide services
 - exchange, dispose or transfer land
 - use land in any other way to provide future economic benefits/ service potential
- **Conclude** – Municipality loses control of land when it enters into arrangement with province

Accounting for land

Methods of land acquisition

Accounting

- | Methods of land acquisition | Accounting |
|--|---|
| <ul style="list-style-type: none">• Use of existing land | <ul style="list-style-type: none">• Accounted for in terms of GRAP 12 when intention to use for housing development |
| <ul style="list-style-type: none">• Urban Settlements Development Grant (USDG) | <ul style="list-style-type: none">• Grant accounted for in terms of GRAP 23• Land recognised as asset or expense depending if arrangement entered into on acquisition date |
| <ul style="list-style-type: none">• Donations/Transfers | <ul style="list-style-type: none">• Land accounted for in terms of GRAP 23• Land recognised as asset or expense depending if arrangement entered into on acquisition date |

Accounting for other assets

Type of asset	Accounting
<ul style="list-style-type: none">• Infrastructure assets	<ul style="list-style-type: none">• Accounted for in terms of GRAP 17 if control present
<ul style="list-style-type: none">• Vacant land	<ul style="list-style-type: none">• Assess control using indicators of control in IGRAP• Assess at inception of arrangement• Classification dependent on intended use
<ul style="list-style-type: none">• Community assets	<ul style="list-style-type: none">• Accounted for in terms of GRAP 17 if control present





Stakeholder outreach and communication

Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Social media
- Handbook (20% discount until June 2017 order form available on website or on request)

Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

Website

- Overview of changes made to Standards with effect from 1 April 2016.
- Three set of Standards:
 - Those entities with a December year-end
 - The Standards applicable for the current year
 - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:
<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



THANK YOU





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