



Comments due by 15 June 2016

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON A PROPOSED GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME

(ED 140)



ED 140

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of a proposed *Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme*. Entities in the public sector are often involved in the construction of houses as part of government's housing policy that is implemented through the national housing programme. The objective of the proposed Guideline is to outline the accounting of transactions and events that arise out of these activities.

The proposals in this Exposure Draft may be modified in the final document in the light of comment received. Comment should be submitted in writing so as to be received by **15 June 2016**. Email responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the Guideline has been issued. Comment should be addressed to:

The Chief Executive Officer
Accounting Standards Board
P O Box 74219
Lynnwood Ridge
0040
Fax: +2711 697 0666

E-mail Address: info@asb.co.za

Copyright © 2015 by the Accounting Standards Board

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the Accounting Standards Board. The approved text is published in the English language.

Permission to reproduce limited extracts from the publication will usually not be withheld



INTRODUCTION

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.



ED 140

All paragraphs in the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. The Standards should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .12 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Background and objective of this Exposure Draft

Entities in the public sector are frequently involved in the construction of houses to give effect to government's housing policy that is implemented through the national housing programme.

Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. While different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities, there should be some consistency in the accounting treatment.

Under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered, and as a result, the Board agreed to develop high-level guidance for these arrangements.

Scope of the proposed Guideline

The proposed Guideline outlines accounting for transactions and events that arise from the national housing programme. Key features of the various arrangements undertaken in terms of the national housing programme and the principles from the relevant Standards of GRAP have been considered.

The proposed Guideline illustrates the accounting for revenue, expenses, assets and liabilities by municipalities that have been accredited in terms of the National Housing Code, and who participate in the national housing programme.

As the nature of the functions assigned to non-accredited municipalities is, in many instances, similar to that of level one and level two accredited municipalities, the Guideline can also be applied by non-accredited municipalities that participate in the national housing programme. By analogy, other entities that participate in the national housing programme, for example public entities, can also find the guidance useful.

One of the key issues in accounting for the national housing programme is the treatment of land. The Board has developed a proposed Interpretation of the Standards of GRAP on *Recognition and Derecognition of Land* (ED 139). The principles proposed in the Interpretation have been used to develop guidance on the accounting treatment of land in relation to housing arrangements.

The following has not been included in the scope of the proposed Guideline:

- Housing stock that is accounted for by provincial housing funds as assets. When the Housing Act, Act No 107 of 1997, came into effect in 1997, the National Treasury agreed that provincial housing funds will no longer be used to transfer funding to

municipalities that are participating in the national housing programme. As the provincial housing funds are not currently used to direct the funding from the national Department of Human Settlements to municipalities, the proposed Guideline does not deal with the provincial housing funds, or the stock recognised as assets in these funds.

- Houses that are rented by municipalities as part of their own housing stock to third parties, and/or houses that are refurbished prior to their rental to third parties or transfer to beneficiaries. As these arrangements are entity specific and not undertaken in terms of the national housing programme, the Guideline does not specifically address the accounting for transactions or events that arise out of these arrangements.

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting.

Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft.

Request for comment

Comment on this Exposure Draft is invited by **15 June 2016**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

The Board would particularly appreciate answers from respondents to the questions posed below.

Specific matters for comment

1. 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.
2. (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?

(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?

If yes, could you please provide details of what these additional responsibilities are that need to be addressed in the Guideline?

3. Are there any additional regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Guideline?

If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Guideline.

4. 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.
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.
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.
7. In your view, do you agree with the accounting principles relating to the accounting for land? Please explain your response.
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.
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 your answer.

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.