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Is your municipality accounting for housing programmes correctly?

Municipalities participate in housing programmes undertaken by the National or relevant provincial Department of Human Settlements in terms of the Housing Act, Act No. 107 of 1997 (Housing Act). Municipalities often account for revenue, expenditure, and the completed houses inconsistently and/or incorrectly. As the housing programme arrangements are complex, so too is the accounting. Much of the complexity in accounting arises from the fact that municipalities provide goods and services to the relevant Department, while also undertaking transactions on behalf of the Department. As a result, it is difficult to understand what should be reflected in the municipalities' financial statements.

What roles do municipalities play in the housing programme?

Municipalities participate in the national housing programme according to their level in the Accreditation Framework. In terms of this Framework, municipalities can hold a level 1 or level 2 accreditation. Level 1 municipalities are generally 'project managers', while level 2 municipalities can be 'project managers' and 'project developers'.

Where a municipality is a *project manager*, it typically does the following:

- Undertakes spatial and other planning related to housing development.
- Identifies potential contractors to construct the houses for the Department.
- May be involved in the supply chain management process to appoint contractors. The Department usually remains responsible for fulfilling the rights and obligations in the arrangement.
- Manages and monitors project execution.
- Communicates information about the programme to the community, receives application forms from beneficiaries and provides them to the Department, and hands over the completed house to the beneficiary.

When fulfilling the role of the *project manager*, the municipality is typically an agent for the Department in dealing with both contractors and beneficiaries. In this case, municipalities would only recognise revenue and expenses related to the goods and services that it provides

to the Department, for example, project management services, services provided as an accredited municipality and other administrative services provided.

Where the municipality's role is the *project developer*, it is responsible for fulfilling the construction related activities in the arrangement. The municipality may construct the houses itself or appoint sub-contractors. If the municipality is the project developer, it accounts for the construction costs and related contract revenue in its financial statements. As the houses are being constructed for the Department, they are accounted for by the Department.

What guidance is available from the ASB?

The Board issued a Guideline on *Accounting for Housing Arrangements Undertaken in Terms of the National Housing Programme* in March 2017. Entities are required to apply the Guideline for financial years commencing on or after 1 April 2019. The Guideline is intended to apply to entities that have a level 1 or level 2 accreditation. If entities undertake similar housing activities but are not accredited, the Guideline can still be applied. Judgement will, however, need to be applied to assess whether the activities are similar to that of a level 1 or level 2 accredited municipality.

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

Item	Project manager	Project developer
	Level 1	Level 2
Revenue		
<i>Construction of houses</i>	Do not recognise revenue for resources received which are to be disbursed to contractors of the Department. Apply GRAP 109 on <i>Accounting by Principals and Agents</i> and other applicable Standards of GRAP.	Recognise revenue for the construction of the houses. Apply GRAP 11 on <i>Construction Contracts</i> for revenue related to construction activity.
<i>Fees received</i>	Recognise revenue for goods and services provided to the Department, e.g. project management, accreditation, transaction, and administration fees, etc. Apply GRAP 9 on <i>Revenue from Exchange Transactions</i> .	As level 2 entities can also be ‘project managers’, recognise revenue for goods and services provided to the Department other than those related to the construction of the houses, e.g. project management, accreditation, transaction, and administration fee, etc. Apply GRAP 9 on <i>Revenue from Exchange Transactions</i> . If related to the construction activity, fees can be recognised using GRAP 11.
<i>Human Settlements Development Grant (HSDG) - provided for the construction of houses</i>	Recognise accreditation fee as exchange revenue using GRAP 9. Remainder of grant for construction of houses not recognised as revenue if project manager (see “construction of houses” above).	Recognise accreditation fee as exchange revenue using GRAP 9. Remainder of grant for construction of houses recognised using GRAP 11 (see “construction of houses” above).
<i>Urban Settlements Development Grant (USDG) - provided for the acquisition of land and development of infrastructure</i>	Recognise grants for the acquisition of land and development of infrastructure as non-exchange revenue using GRAP 23 on <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i> .	
Expenses		
<i>Project manager</i>	Recognise expenses to provide the goods and services to the Department, e.g. employee costs of staff employed by the municipality to provide project management services.	If project manager, apply accounting in “project manager” column.

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

Item	Project manager	Project developer
	Level 1	Level 2
	Do not recognise expenses for resources that are disbursed to service providers of the Department. Apply GRAP 109 on <i>Accounting by Principals and Agents</i> and other applicable Standards of GRAP.	
<i>Project developer</i>		Recognise expenses incurred to construct the houses using GRAP 11.
Houses	Recognised by relevant Department.	
Infrastructure	Recognised by municipality.	
Land		
<i>General principle</i>	Land is derecognised by the municipality when control is lost. Control of land is not only determined based on legal title; legal rights arising from legislation or contracts are also considered. Control is lost when the municipality enters into the housing arrangement with the relevant Department as the Department can direct how the economic benefits or service potential of the land are used.	
<i>Land already controlled by the municipality</i>	A municipality would need to consider (a) a potential change in classification of land to inventory when the municipality intends to use the land for housing development; and (b) when land should be derecognised based on a loss of control.	
<i>Land acquired by the municipality</i>	<p>The recognition of land that is specifically acquired for the housing programme would depend on whether the municipality has already entered into the housing arrangement with the relevant Department:</p> <ul style="list-style-type: none"> • No arrangement: Recognise land and consider whether classification as inventory is appropriate. GRAP 23 is applied for acquisitions through non-exchange transactions. • Arrangement exists: Land acquired will be controlled by the Department. The acquisition cost of land is recognised as an expense. GRAP 23 is applied for non-exchange transactions. 	
<i>Land to be used for infrastructure or township development</i>	A portion of the land already controlled, or to be acquired, may be used by the municipality for infrastructure or township development. The portion of the land, already controlled or acquired, related to infrastructure or township development should be recognised by the municipality.	

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

Item	Project manager	Project developer
	Level 1	Level 2

Disclaimer

The summary is based on the fact patterns explained in the Guideline. If the fact patterns of an entity's arrangement differ, the accounting outcome may be different.

New FAQs

The Secretariat published new FAQs during November. These are as follows:

1. What disclosures should an entity provide on newly effective Standards of GRAP?

Entities are required to disclose (a) the existence of issued but not yet effective Standards, and (b) known or reasonable estimable information about the possible impact of the application of the new Standards on the entity's financial statements. Entities frequently provide a list of Standards, but seldom disclose their potential impact on the financial statements.

The FAQ explains what should be disclosed, as well as which 'issued but effective Standards' should be included in the list.

2. Should all errors be accounted for using GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*?

A trend has been observed that entities provide extensive information in the financial statements on the correction of immaterial prior period errors. Providing information for immaterial errors can detract from the overall quality of the financial statements as it may not be relevant to users. The FAQ discusses what errors are, and how they should be dealt with in the financial statements.

3. Are all adjustments related to the adoption of a new pronouncement a change in accounting policy in accordance with GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*?

When entities are required to apply new or amended Standards of GRAP, these changes are accounted for using the transitional provisions. If there are no transitional provisions, the amendments are accounted for as a change in accounting policy or a change in accounting estimate.

It may happen that not all the previous requirements are repealed or amended. It has been observed that entities may identify that they incorrectly applied the previous requirements and treat this as either a change in an accounting policy or a change in estimate along with the adoption of the amendments. As a result, it may be appropriate to consider whether a prior period error exists. The existence of a change in an accounting policy, estimate or a prior period error is explained in the FAQ.

4. When should GRAP 109 *Accounting by Principals and Agents* be applied?

Some entities have applied GRAP 109 to any arrangement with more than two parties. Principal-agent arrangements are a particular type of arrangement where one entity acts on behalf of another in dealing with third parties. The FAQ explains the process that needs to be followed to assess whether an arrangement is a principal-agent arrangement and in the scope of GRAP 109.

Coming up

The Board will consider the following technical documents at its December 2019 Board meeting:

- Proposed GRAP Reporting Framework for 2020/2021.
- Initial discussions on the preparation of combined financial statements, i.e. where financial statements of different entities are combined but control is not the principle used for the combination.
- Invitation to Participate in the Post-implementation Review of GRAP 103 on *Heritage Assets*.
- Research Paper on results of the review of the amendments to GRAP 16 on *Investment Property* and GRAP 17 on *Property, Plant and Equipment*.
- Research Paper on results of research on reporting information to the public.
- Analysis and review of comments received on ED 174 on *The Application of Standards of GRAP by Public Entities that Apply IFRS Standards*.

Open for comment

The following Exposure Drafts are open for comment:

Topic	Comment deadline
ED 177 – Proposed <i>Transitional Provisions for the Standard of GRAP on Financial Instruments (Revised 2019)</i>	29 November 2019
ED 179 - <i>Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments</i>	17 December 2019

Important dates

Participate in the ASB's due process

The Secretariat of the ASB will be hosting roundtable discussions to discuss the Exposure Drafts open for comment. The purpose of these discussions is for preparers, auditors and others to provide input to the Exposure Drafts issued for comment.

If you are interested in joining these discussions, please email the staff member listed below:

Event	Date	Target audience
Proposed Transitional Provisions for GRAP 104 (Revised 2019) Email: jeaninep@asb.co.za		
Roundtable discussion	26 November 2019	Public entities
Roundtable discussion	27 November 2019	Municipalities and municipal entities
Roundtable discussion	4 December 2019	Firms, auditors, professional bodies and other interested parties

The Secretariat of the ASB is establishing project groups to review the requirements of the Standard of GRAP on *Employee Benefits* (GRAP 25), starting 2020. Those interested in joining the project groups should email the Secretariat (elizna@asb.co.za) by 6 December 2019.

GRAP Updates

There are a number of new Standards that will need to be applied by entities for their 31 March or 30 June 2020 year ends. The ASB, hosted by CIGFARO, will be presenting a high-level overview of these Standards on the dates below. To register, send an email to the relevant address(es) listed.

Date	Organisation	To register, contact
February 2020		
13 February	KwaZulu Natal – hosted by CIGFARO	kznbranch@cigfaro.co.za or branch@cigfaro.co.za
19 February	Western Cape - hosted by CIGFARO	westerncape@cigfaro.co.za or branch@cigfaro.co.za
21 February	Northern Cape - hosted by CIGFARO	iwagner@solplaatje.org.za or branch@cigfaro.co.za
26 February	Eastern Cape - hosted by CIGFARO	ingcelwane@mandelametro.gov.za or branch@cigfaro.co.za
March 2020		
12 March	Limpopo – hosted by CIGFARO	makhongelam@gmail.com or branch@cigfaro.co.za
13 March	Mpumalanga – hosted by CIGFARO	lengwatetm@nkangaladm.gov.za or branch@cigfaro.co.za
26 March	Gauteng – hosted by CIGFARO	asmas@joburg.org.za or branch@cigfaro.co.za

ASB meeting dates

The next Board meeting is scheduled for the 5th of December 2019. Observers are welcome to attend these meetings, but it should be noted that space is limited. In order to accommodate observers at meetings, interested parties are asked to complete the registration form available on the website.