



PROJECT BRIEF FOR APPROVAL				
Name of project	Communication material for users of financial statements			
Project timeframe	Commencement Quarter 3 2021 Completion Quarter 2 2022			
Project manager	E van der Westhuizen			
Complexity of project	The project is moderately complex as it entails the development of education material for users on the basic principles of financial statements. Limited consultation with stakeholders may be necessary to test whether the proposed material will be useful.			
Rating	Urgency	High	Medium	Low
	Impact	High	Medium	Low
	Resources required	High	Medium	Low
PROJECT OVERVIEW				
Area of consideration	Comment			
<i>Project outcome</i>				
Project objective	<p>The Standards of GRAP are developed to provide users of the financial statements, i.e. the providers of resources to government and the recipients of services from government, with information to hold government accountable and to make decisions. However, much of the information provided in the financial statements may not be well understood by users.</p> <p>The project objective is to develop communication material to help users understand the financial statements. The project will consider the following:</p> <ul style="list-style-type: none"> (a) The balance between providing communication material rather than educational material. (b) The material will be directed at users of the financial statements to help them understand the role of the financial statements and how the information can be used to hold entities accountable and to make decisions. (c) The project will focus on those users in oversight structures, specifically those with oversight responsibilities related to financial reporting. For municipalities, these users include the Members of Mayoral Committee (MMC) for Finance and members of the Municipal Public Accounts Committee (MPAC). For public entities these users include members of the Standing Committee on Finance (SCoF), the Standing Committee on Public Accounts (SCOPA) and the Association of Public Accounts Committees (APAC). 			



	<p>It is not anticipated that material requiring a due process or Board approval will be developed. Rather, the material is anticipated to be issued by the Secretariat. Progress on the project and examples of what the material will look like may be shared with the Technical Committee and Board.</p>
<p>Key issues that need to be addressed as part of this project</p>	<p><i>Scope of project</i></p> <p>The project will develop communication material for users of financial statements of all entities that apply Standards of GRAP, specifically those users with oversight responsibilities related to financial reporting.</p> <hr/> <p><i>Nature of output to be developed</i></p> <p>The project will produce a document(s) that explains in a simple, understandable format:</p> <ul style="list-style-type: none"> • the role of the financial statements; • the linkages with the budget and performance information; • the linkages with information in integrated reports; • what the various components and line items mean; and • how they can be used to hold entities accountable and make decisions. <p>The intention is not to produce training or educational material, but rather an informational type booklet that can be downloaded from the website and easily distributed to the intended stakeholders. The material will not follow the Board’s due process or be issued by the Board and will be issued by the Secretariat.</p> <hr/> <p><i>Previous deliberations by the Board on communication material</i></p> <p>The Board considered whether reporting requirements should be introduced for entities to report information to the public, in a simple, concise manner outside of the financial statements. The public is one of the key users of government financial statements but may be unable to obtain the information they need from complex and lengthy financial statements. The Board concluded that no reporting requirements will be introduced for entities to report information to the public as the environment was not mature enough and faced many challenges in reporting accurate information to users. The results of the Board’s research were published in a Research Paper.</p> <p>The research on reporting information to the public revealed that it is not only the “general public” that struggle to understand and interpret information in financial statements. Other users who face the same challenges include elected representatives of all levels of government, including those with oversight responsibilities over finances.</p>



	<p><i>Guidance developed by the Secretariat in response to issues raised by stakeholders</i></p> <p>The Secretariat issued a booklet on the Accounting Standards Board, which included information on financial statements and how they could be used.</p>
	<p><i>Key issues to be considered</i></p> <p>Stakeholders often indicate that the financial statements are not used because their role, purpose and content are not well understood. The project will consider the following in developing communication material to users:</p> <ul style="list-style-type: none"> • The content of the material should be simple, concise and easy to understand. This means it should use easily understandable explanations, written in plain language, and without accounting jargon. Instead of being a technical explanation of financial statements, the material should explain how financial statements tell the story of an entity’s performance in a reporting period, and how that information could be used to hold entities accountable and make decisions. • The material should be developed in an interesting way. Where possible, tools such as animations and graphics should be used. • The material should be packaged in a format that is easy to use (user-friendly), i.e. not a lengthy document in which information is hard to find. • The method and platforms used to make the material available to users should be carefully considered to ensure it can be easily accessed by users. Awareness should be raised with users about the material so that it reaches its intended audience. • Literature exists that helps users to understand the financial statements. The project would need to ensure that existing material is not duplicated. • With more public sector entities preparing integrated reports, the project will consider the information in integrated reports. • Some stakeholders raised concerns about whether developing such communication material is within the ASB’s mandate. The extent of the guidance provided in the communication material, together with the format of the material, would need to be assessed to ensure it is within the ASB’s mandate.
Environment	
Legislation or regulatory requirements affecting the project	No specific legislation applies.



<p>Existing accounting guidance in the Standards of GRAP, IPSASs or IFRSs</p>	<p>There are no accounting standards that provide guidance to users of the financial statements. Other material produced by stakeholders have been identified and include the following:</p> <ul style="list-style-type: none"> • The National Treasury’s Municipal Money website includes explanations of basic financial statement line items and how they can be used. The website also includes information on the use of ratios. • The South African Local Government Association (SALGA)’s Municipal Barometer portal repackages existing financial and non-financial information for users. The portal explains the information and provides context to assist users in using it. • The National Treasury has developed Municipal Finance Management Act (MFMA) interactive multimedia learning. It is designed to benefit municipal councillors and officials and covers MFMA legislative requirements including aspects of financial reporting. • National Treasury and the Department of Cooperative Governance and Traditional Affairs (COGTA)’s Guide and Toolkit on Improving Oversight and Accountability, aimed at MPACs.
<p>Practices in other countries</p>	<p>Various literature exists to help users understand financial statements, ranging from books and booklets, to articles and blogs. These include:</p> <ul style="list-style-type: none"> • Office of the Auditor General of British Columbia’s <i>Understanding Canadian Public Sector Financial Statements</i> • The SEC’s <i>Beginners’ Guide to Financial Statements</i> • Cliffs Notes’ <i>Understanding Financial Statements</i> • Investopedia’s <i>12 Things You Need to Know About Financial Statements</i> • The balance’s <i>How to Read and Understand Financial Statements</i> • Harvard Business School’s <i>The Beginner’s Guide to Reading & Understanding Financial Statements</i> <p>Although most of the information available is on private sector financial statements, much of the material is equally relevant for the public sector.</p>
<p>Use of experts</p>	<p>It is not anticipated that an expert will be necessary.</p>
<p>Stakeholders</p>	
<p>Entities in the public sector affected by this project</p>	<p>All entities in the public sector that apply Standards of GRAP. The material will be aimed at users of financial statements, particularly those with finance responsibilities.</p>
<p>Key stakeholders to be consulted during the development of the project</p>	<p>1. The following stakeholders may be consulted in the development of the communication material, with the purpose of assessing whether it will be useful for users of financial statements.</p>



	<p><i>Preparers</i></p> <p>A representative group of preparers as well as consultants that assist entities to prepare financial statements.</p> <p>Audit firms, specifically technical divisions.</p> <p>National Treasury’s Office of the Accountant-General.</p> <p><i>Auditors</i></p> <p>A representative group of auditors, including the Audit Research and Development unit of the AGSA.</p> <p>Professional bodies (including e.g. SAICA, SALGA, CIGFARO and SAIPA).</p> <p>2. Stakeholders that have already developed guidance for users may be consulted to learn from their experience. These stakeholders include SALGA, COGTA and the National Treasury. The AGSA’s unit responsible for the General Report, and Citizen’s Report on the General Report, may be consulted.</p> <p>3. A reference group with the trilateral parties may be established. The purpose of the reference group would be to consider whether the material being developed meets the project objectives.</p>
<p>Key stakeholders to be consulted as part of the <u>public consultation</u> process</p>	<p>A public consultation process will not be necessary.</p>
<p>Linkages</p>	
<p>ASB projects</p>	<p>None</p>
<p>IPSASB projects</p>	<p>None</p>
<p>IASB projects</p>	<p>None</p>
<p>Local reforms in public financial management</p>	<p>The National Treasury has received EU funding to develop communication material for users of financial statements.</p>
<p>Project plan</p>	
<p>Key milestones and timing</p>	<p>See Annexure for roadmap.</p>



Annexure – Road map for Communication material for users of financial statements

Milestone		Timing	Stakeholder	Linkages
1.	Present project brief	Q4 2021 (Oct – Dec '21)	Present project brief to: - Internal review - Technical Committee - Board	
2.	Develop draft communication material	Q4 2021 to Q1 2022 (Oct '21 – Mar '22)	Develop draft communication material.	
3.	Example material for Board consideration	Q1 2022 (Jan – Mar '22)	Present “look and feel” of material to: - Internal review - Technical Committee - Board	
4.	Consult on communication material	Q 2 2022 (Apr – Jun '22)	Obtain stakeholder input on draft communication material	
5.	Feedback to Board	Q 3 2022 (Jul – Sept '22)	Provide feedback on material developed and stakeholder input to: - Internal review - Technical Committee - Board	
6.	Finalise and publish	Q 4 2022 (Oct – Dec '22)	Finalise communication material and publish.	



Document management		
Prepared by:	E van der Westhuizen	20 August 2020
Revised by:		
Approved by:		