



Practitioner Advisory Group

AGENDA ITEM: TAGCP01- 9

December 5-6, 2019 - Nairobi, Kenya

NPO Sector Specific Issues

Summary	This paper provides a long list of issues developed by the TAG, and proposes criteria to determine which issues are short-listed for consideration within the Guidance.
Purpose/Objective of the paper	To provide background context as a basis for discussion by the PAG to ensure that the long list of issues is complete. The paper also proposes criteria to determine which issues should be short-listed for addressing within the Guidance. This is to allow the work plan for the Consultation Paper to be set consistent with the proposed objectives of the project.
Other supporting items	PAGCP01 –04 Project Objectives
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Actions for this meeting	Advise on: <ul style="list-style-type: none">• The criteria for evaluating the projects• The completeness of the long list of issues• Issues to be short-listed for consideration in the Guidance.
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NPO Sector Specific Issues

1. **Background**

- 1.1 Many countries have no specific guidance for Not-for-Profit Organisations (NPOs) and with no international accounting standards for NPOs, reporting varies widely, with the same transactions treated very differently in different countries, and within jurisdictions.
- 1.2 The differences in the treatment of transactions, as well as issues around narrative reporting, have been raised globally for a number of years. The situation has been exacerbated by the number of NPOs operating both internationally and locally across borders. These issues have been reported through academic studies, by standard setters and by members of the NPO community, including donors.

2. **Historical context**

- 2.1 In 2013, the Consultative Committee of Accountancy Bodies (CCAB), the coordinating body for the UK and Ireland's Professional Accountancy Organisations, funded an independent study on the need for international financial reporting standards for NPOs. The report published in 2014, built a robust evidence base for the need for an international reporting standard for the NPO sector through a survey in which 72% of 605 respondents across 179 countries agreed that such a standard would be useful.
- 2.2 The study was focused on NPOs that are;
 - constituted on a not-for-profit basis; and
 - self-governing; and
 - established for public benefit
- 2.3 The report noted that in many jurisdictions the above definition corresponded with the common understanding of "charities" or organisations established "for public benefit". The report noted that the scope of NPO's could be wide.
- 2.4 The study raised a number of issues, notably the diversity of requirements placed on NPOs. These were often linked to the NPO's legal form, for example, many jurisdictions placed requirements on NPOs structured as companies which did not apply to other NPOs. The study also noted that accounting requirements also ranged from very specific NPO standards to no standards at all, for example the UK Charities SORP (Accounting and Reporting by Charities: Statement of Recommended Practice) is very detailed and specific, whereas in Australia, a sector neutral approach is adopted. The study noted that some countries require application of IFRS, but the extent of application especially to small NPOs was questioned. It also identified areas



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of difference in accounting treatments in a number of specific areas. These are included in Annex A.

- 2.5 The study set out a number of options to address these issues, including both specific international accounting standards and guidance. However, it concluded that more analysis and discussion would be needed by interested parties to determine the best way forward, with the findings of the report having the potential to inform this debate.
- 2.6 The International Forum of Accounting Standard Setters (IFASS) is a grouping of national accounting standard-setters from around the world, as well as other organisations that have a close involvement in financial reporting issues. Following a meeting of IFASS in April 2016, an informal grouping of some of these standard setters and other organisations with an interest in not-for-profit reporting was formed. The Group comprised 10 member countries and was chaired by CIPFA, which also provided the Secretariat, while the IASB participated as an observer. The group has been discussing the most pressing issues being encountered by national standard setters for this sector.
- 2.7 The Working Group developed a long list of issues and has brought together information from Working Group participants about the various accounting treatments in their jurisdictions. This was compiled into a not-for-profit platform hosted on the CIPFA website.¹ The issues identified by the Working Group are included in Annex A.
- 2.8 In 2015, the Association of Chartered Certified Accountants (ACCA) in the UK issued a Companion Guide '*Companion guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*'. The Guide was principally authored by Nigel Davies who was the Head of Accountancy Services at the Charity Commission in the UK and has deep experience of charity accounting in the UK.
- 2.9 The Companion Guide was written in response to the lack of formal guidance to help NPOs prepare financial accounts under a robust, but appropriate framework. The foreword to the guide says '*...as a consequence of the IASB's focus on for-profit organisations, there are times when the outcome of applying the [IFRS] SME Standard to not-for-profit organisations will not provide a perfect representation of the results of those entities.*'
- 2.10 The objective of the Companion Guide is to provide assistance to not-for-profit entities that may wish to prepare reports on the basis of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). It identifies a number of issues for not-for-profit organisations and seeks to provide guidance to sit alongside the IFRS for SME's standard to address those issues. These issues are also included in Annex A.

¹ Link to CIPFA website



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3. Criteria for topic selection

- 3.1 With large number of potential issues to consider, there needs to be a clear basis for inclusion of issues within the Consultation Paper (CP) and ultimately the Guidance.
- 3.2 Following initial discussion at the Technical Advisory Group (TAG) meeting on 3 and 4 October, and a subsequent discussion at the TAG meeting on 4 November, the TAG has reached consensus on the following criteria to evaluate the potential inclusion of an issue in the CP:
 1. **Prevalence** - Whether the financial reporting issue is widespread globally.
 2. **Consequences** - Whether the issue impairs the ability of the financial statements to provide useful information for accountability and decision making.
 3. **Demand** - Whether the issue has been raised by multiple stakeholder groups, or where a single stakeholder group across multiple jurisdictions (for example preparers) has widespread support for the need to address a specific issue.
 4. **Feasibility** - Whether a technically sound solution to the issue can be developed within a reasonable time period and current resource constraints without impacting adversely on the completion of other projects.
- 3.3 The TAG also advised that the CP should only address issues that are specific to the NPO sector, and not issues that are prevalent across all sectors. The views of the PAG are important to finalising the criteria, offering the opportunity to obtain different perspectives on these. Once the criteria have been updated as necessary to reflect the PAG's input, they will be used to finalise which specific issues will be prioritised for analysis, with that analysis included in the CP.
- 3.4 In summary, the intention is that topics included in the CP will be focused on those sector specific issues that are most prevalent, have the highest demand, have the highest consequences if not addressed and those that are feasible to implement. Prevalence will address the idea that the Guidance will cover issues that are common across the sector.

Question 1: What are the PAG's views on the proposed criteria for topic selection?



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4. Long List of Potential CP Issues

- 4.1 As discussed above, Annex A contains a long list of issues that has been compiled from the work undertaken by IFASS Not-For-Profit Working Group, the 2014 CCAB report and from the ACCA Companion Guide. There is significant correlation between the issues raised from these sources.
- 4.2 Non-exchange transactions feature heavily in the list, which includes accounting for incoming resources (what should be recognised when and by whom), accounting for outgoing resources (including grants and constructive obligations), the form and content of financial reports (narrative reporting, presentation of financial statements and notes) and accounting for non-financial assets (measurement of service potential).
- 4.3 Annex A was considered by TAG at its first meeting on 3 and 4 October 2019. The TAG was of the view that this list captured the majority of the issues, although it also suggested adding a number of new issues. The TAG advised that the definition of NPOs should be removed as a specific issue and should be addressed as an overarching framework consideration in Part 1 of the Consultation Paper.
- 4.4 The list has subsequently been updated to provide more clarity about the nature of each of the issues and to consider how they might best be grouped to provide a comprehensive and contextualised understanding of the issues. Annex B reflects the outcome of the TAG's further deliberations during its conference call on 4th November 2019. The TAG wishes to receive input from the PAG on whether the description of each issue resonates and whether the long list of sector specific issues is now complete.

Question 2: Does the PAG agree that the description of each issue in Annex B fairly reflects the nature of the accounting challenges?

Question 3: Does the PAG agree that the list of potential issues in Annex B is comprehensive? Should any be added or deleted?



5. Issue Prioritisation

- 5.1 The reason for short-listing certain issues, is to address the fact that in this initial phase of the project, the time and resources available will not allow every NPO-specific issue to be addressed. The prioritisation process will be used to ensure that resources are applied to the issues that have the potential to add greatest value to the Guidance.
- 5.2 The TAG was asked at its first meeting to evaluate each issue on the long list using the version of the above criteria agreed following discussion earlier in the meeting. Through this process the TAG reached a short list of potential issues to include in the CP. The TAG has subsequently reviewed its initial evaluation, taking account of clarifications made to the description of issues.
- 5.3 As well as providing a long list of the issues, Annex B also shows the TAG's views about the relative priority of the issues to be incorporated into the CP. The TAG wishes to understand the PAG's views on the proposed short listed issues, recognising the broader perspectives the PAG can bring.
- 5.4 The Work Plan for the development of the CP will be updated following the discussion by the PAG and will be shared as part of next steps. As noted in Paper 8, the CP will provide the opportunity for respondents to nominate further issues for consideration in the development of the Exposure Draft.

Question 4: Does the PAG agree with the proposed short list of issues? Should any issues be removed from, or added to, the short list?

November 2019



Annex A

Historical Issues Raised – Presented to the TAG

	Topic	Issue	IFASS	CCAB report	ACCA ² Guide
Accounting for incoming resources					
1	Donations	When should these be recognised, including when donations are to be used in a subsequent period and how should they be measured?	X	X	X
2	Grants with performance criteria/performance obligations	Timing of grant recognition and definition of performance criteria/obligation?	X	X	X
3	Gifts in-Kind	When should these be recognised and how should they be measured, including the valuation of low value items?	X	X	X
4	Services in-Kind (including volunteers)	Should volunteer time be recognised and if so on what basis?	X	X	X
5	Legacy/bequest income	When should bequests be recognised and considerations of perpetual trusts?	X	X	X
Accounting for outgoing resources					
6	Basis of allocation of costs and overheads	Classification between charitable and support costs?	X	X	
7	Costs of fundraising	Consistency of recognising the costs of fundraising on a gross basis or netted from income.		X	X
8	Government grants	Treatment of charitable distributions		X	X

² Companion Guide for Not-for-profits to the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) published by the Association of Chartered Certified Accountants (ACCA) October 2015.



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Reporting entity					
9	Definition of NFPs to which NFP reporting and accounting standards should apply	Defining the scope of the sector to reflect amongst other things legal form and purpose.	X	X	
10	Treatment of branches/definition of control	Should all branches be consolidated irrespective of control? What should be consolidated?	X		X
11	Mergers	Issues arising from the merger of two or more charitable organisations.	X		X
Accounting for non-financial assets					
12	Heritage assets	Treatment of significant heritage assets and obligations, to include recognition and measurement	X	X	
13	Fair valuing assets restricted for use	Valuing of assets that can only be used for a specific charitable purpose and may have to be returned	X	X	X
14	Measurement of assets held for service potential	Valuing of assets that are not held for profit or economic purposes		X	X
15	Impairment of long lived/fixed assets	Defining the indications of impairment	X		X
16	Concessionary loans for social purposes	What is the definition of a concessionary loan? How are they measured and disclosed?		X	x
17	Service concessions arising in NPOs	When do these arising in the not-for-profit sector e.g. low income housing	X		
Narrative/performance reporting and transparency disclosures					
18	Narrative reporting	Guidance for narrative/non-financial reporting by NFPs	X	X	X
19	Ratios – definition of funding/expense ratios	Consistency of reporting to provide transparency about the level of overhead to operational expense	X	X	
20	Related party transactions	Definition of related parties and disclosure?	X		X



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21	Remuneration/pay disclosures	What disclosures should be made and who should it cover?	X		
22	Financial statement presentation	Presentation of financial statements to help user understanding of activities and that also reflect the nature of restricted funds		X	X
23	Treatment and presentation of unrestricted and restricted funds	How are unrestricted and restricted funds that can be used for specific purposes recognised in the financial statements?	X	X	X
24	Reserves policy	Guidance and framework for reporting of reserves policies in a not-for-profit.	X	X	X



Annex B

Short Listed Issues for inclusion in Consultation Paper.

	Topic	Issues
	Accounting for incoming resources	
1	Recognition and measurement of incoming resources from external sources	<p>What are the overarching principles for the recognition and measurement of incoming resources from 'non-exchange' transactions, (of which donations, grants, services in-kind income are all categories)?</p> <p>Is there anything sector specific regarding exchange transactions (e.g. provision of services to third parties)?</p>
2	Cash transfers - donations, grants and other contributions with time and purpose requirements and other criteria/performance obligations	<p>Timing of income recognition and definition of performance criteria/obligation. What is the recognition and measurement process when receiving donations that are used to fulfil requirements (including a specific time and purpose requirement) in subsequent periods?</p> <p>When should donations to purchase a capital asset be recognised? What if the donation is repayable if the asset, at some future date, is no longer used for its intended purpose?</p>
3	Services in-Kind (including volunteers)	When should services in-kind be recognised and if so how are they measured? What disclosures should be provided?
4	Gifts in-Kind (non-financial assets and inventory)	<p>When should gifts in-kind be recognised and how should they be measured, including low value items such as inventory (second-hand for sale and new for distribution as part of charitable activities)?</p> <p>How should assets financed by capital grants be recognised and measured (i.e. gross or net), and the implications for the recognition of the grant in income?</p> <p>How should assets that can only be used for a specific purpose and may have to be returned be measured initially and subsequently?</p> <p>Recognition and measurement of 'right of use' donations (including free use of space and equipment)?</p>
	Accounting for outgoing resources	
5	Categorisation of expenses – function or nature	<p>Should the primary analysis of expenses be based on function or nature of spend?</p> <p>What should the primary headings be?</p>



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6	Costs of fundraising	<p>How should the costs of fund raising be defined (for example, whether to include business development spend and/or overheads)?</p> <p>How should the costs of fundraising be recognised and/or presented (i.e. on a gross basis or netted against income)?</p>
7	Grant expenses	<p>Recognition and measurement of NPO 'non-exchange' transfers to individuals and other entities?</p> <p>When is a liability recognised (whether a grant or promise), particularly in a multi-year arrangement?</p>
8	Agency relationships	<p>When is the NPO acting as an agent and when is it acting as principal?</p> <p>Is any disclosure required of the gross amounts relating to agency activity or assets in custody, (including cost pass through and assets held on behalf of another entity/person)?</p>
Reporting entity		
9	Definition of control (including the treatment of branches)	<p>How is control defined (as NPOs may not be exposed to investee returns in a conventional sense)?</p> <p>How is a branch defined? Should all branches be accounted for as part of an NPO? What is the status of the financial statements of a branch that is not a separate legal entity?</p>
Accounting for non-financial assets		
10	Measurement of tangible and intangible assets held for their service potential	<p>How should assets that are held for service potential be measured, both initially and subsequently?</p> <p>How do you identify impairment where assets are held for service potential (e.g. assets do not generate any income, or generate income at below market rate)?</p> <p>When an impairment has been recognised, what disclosures should be made?</p>
Form and content of financial reports		
11	Financial statement presentation	<p>How should financial statements be presented to help the user understanding of an NPO's activities?</p> <p>Should there be disclosure of material categories of income and expenditure and/or transactions?</p> <p>How should unrestricted and restricted funds that can be used for specific NPO purposes be presented for the main financial statements and notes (including reserves)? How does this align with donor reporting requirements?</p>



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12	Narrative reporting, (including service reporting)	What should the narrative/non-financial reporting requirements be for NPOs? Should ratios be required for narrative reporting? If they are included, how should costs be classified been support costs and those attributable to operational delivery?
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Issues to be considered in a later Phase

Accounting for incoming resources		
13	Recognition of legacy/bequest income and endowments	<p>When should bequests be recognised? What are the considerations involved with perpetual trusts and/or a portfolio of similar smaller assets?</p> <p>How are endowments recognised and classified, including the treatment of the initial contribution, subsequent changes in the value of the initial contribution and treatment of income earned?</p> <p>How should income from endowments be presented in the operating statement and balance sheet? What disclosures should be required for any restrictions on the entity?</p>
Reporting Entity		
14	Mergers and acquisitions (combinations)	<p>What is the accounting treatment for the combination of two or more NPOs?</p> <p>Should merger accounting be permitted/ required? If the acquisition method is required what is the accounting for a gain/negative goodwill?</p>
15	Intragroup transactions	<p>When is income from a subsidiary recognised in the parent NPO's accounts taking account of legal considerations relating to the way in which the profits of a subsidiary are given to a parent?</p> <p>What disclosure should be required by both sides of the relationship/transaction when a branch is part of a larger NPO or the NPO is part of a group?</p>
Accounting for non-financial assets		
16	Heritage assets and/or obligations	<p>Recognition and measurement of heritage assets.</p> <p>What disclosures should be made about the nature and scale of heritage assets and acquisition, preservation etc. of the collection?</p> <p>Recognition and measurement of significant heritage obligations, and any impact on the measurement of related assets?</p>
17	Concessionary loans for social purposes	<p>What is the definition of a concessionary loan?</p> <p>What is the initial and subsequent measurement of special credit conditions?</p> <p>What is the treatment within a group if there is an inter-company loan with a for-profit entity?</p> <p>What disclosures should be made?</p>
18	Concessionary leases	How should such arrangements be accounted for?



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19	Accounting for investment/financial assets	Classification, recognition and measurement requirements.
20	Service concessions arising in NPOs as grantor	When do these arise in the not-for-profit sector e.g. low income housing? What disclosures are required?
21	Service concessions arising in NPOs as operator	When do these arise in the not-for-profit sector e.g. low income housing? What disclosures are required?
Form and content of financial reports		
22	Related party transactions	Definition, required disclosures and presentation of related party transactions. Implications of local legal requirements?
23	Remuneration/pay disclosures	What disclosures should be made and who should be included?