



International Financial Reporting
for Non Profit Organizations

Discussion Summary & Requests

PAG Meeting 5-6 December 2019

Samantha Musoke

Status of this document

- The role of the Practitioner Advisor Group (PAG) is to present the diverse range of perspectives of different users of the guidance that the project aims to develop, giving input to the IFR4NPO Project Team and Technical Advisory Group
- The PAG is not required to reach consensus and does not make formal decisions or take votes
- The audio recordings give a full verbatim account of the views of individual PAG members
- This document serves to record a summary of key opinions shared, in the form of a discussion digest, and requests to or from PAG members.
- This document should be read in conjunction with the meeting papers and questions available [here](#).



Paper 1 PAG Administration

Notes

The meeting was attended by

- 10 PAG members
- 2 TAG members as observers
- 4 IFR4NPO Project Team members
- 15 in the Public Gallery

Requests

- None



Paper 2 Background to the project

Discussion digest

- It will be important to engage proactively with international donors during the course of the project

Requests

- None



Paper 3 PAG Terms of Reference

Discussion digest

- PAG members to consult with their own networks before PAG meetings as much as possible
- Consider a joint meeting of PAG and TAG after the Consultation Paper

Requests

- To Secretariat: Find ways to foster communication between PAG and TAG



Paper 4 Project Objectives

Discussion digest

- Q1: Guidance that is limited in scope to cover only NPO sector-specific issues may not be the optimum finish point for ease of use. However it is a sensible first goal and the only realistic option for the time frame of this project.
- Q2: A narrative description of the types of NPOs that have been kept in mind during the development of the guidance is essential for individual jurisdictions to determine applicability. Gain clarity by listing criteria and characteristics, stating that substance over form matters.

Requests

- To PAG members: share examples of narrative descriptions of NPOs used in their jurisdictions.



Paper 4 Project Objectives (contd)

Discussion digest

- Q3: Rather than focusing on the size of the entities, and Small and Medium Entities (SMEs) in particular, it is more meaningful to distinguish between entities that prepare accrual based accounts vs those that prepare cash based accounts. It would be appropriate to develop principle based guidance, applicable to those preparing accounts on an accrual basis, irrespective of their size.
- But this creates a very real conflict with donor reporting requirements, many of which require cash basis reports.
- It is important that the guidance is relevant to the smallest organisations and can give them an opportunity to apply and demonstrate good financial reporting practice from the start.
- Two other ongoing sector wide projects: 'Money Where it Counts' and 'Good Financial Grant Practice' complement this project, focussing particularly on harmonising the due diligence and accountability requirements of funders, and indirect cost rate calculation.

Requests

- To Secretariat: Engage with donors early to understand and influence their practice of requiring cash based reports.
- To Secretariat: Provide a paper for TAG and PAG explaining the 'Trio of Projects' and how they inter-relate.



Paper 4 Project Objectives (contd)

Discussion digest

- Q4: Narrative reporting is essential context for understanding the figures, especially for public benefit entities. Narrative reporting is changing and evolving, with integrated reporting initiatives are having their impact.
- Narrative reports are not audited, and only reviewed to ensure that they are consistent with the financial statements and are reasonable.
- Guidance should not be too prescriptive. Research comparing four countries shows that the minimal requirements in the UK SORP have been very effective.
- Major European donors are likely to be shifting project 'audit' scope away from the finances and more towards project impact.

Requests

- None



Paper 4 Project Objectives (contd)

Discussion digest

- Q5: The primary beneficiaries of the guidance would be financial statement preparers, donors / funding partners and regulators.
- Auditors will also use the guidance when they support the preparation process, and in the development of audit procedures to assess compliance.
- Funding partners or donors are key users of the guidance because they can use it to inform the reporting obligations they place on their grantees.
- It was noted that 'beneficiaries / clients' of NPOs could be users of the financial statements, but probably not primary direct users of the guidance itself.

Requests

- From PAG: TAG to signal if and when any trade off is made in arriving at a decision, based on the relative importance of different users of the guidance.
- From PAG: Clarify the distinction between users of the guidance vs the financial statements.



Paper 4 Project Objectives (contd)

Discussion digest

- Q6: Stakeholders to consider include:
 - Supreme Audit Institutions (INTOSAI),
 - Board members of NPOS
 - Beneficiaries / Communities: The Core Humanitarian Standard (CHS) includes a standard on accountability to communities
 - Grant assessors (usually project rather than finance staff within grantor organisations)

Requests

- None



Paper 4 Project Objectives (contd)

Discussion digest

- Q7: The definition of success in Para 7.3 could be relevant to the ‘Trio of Projects’ rather than for IFR4NPO project alone.
- Consider removing the term ‘non-mandatory’ in Objective 1 as it can be misleading.
- Consider rephrasing Objective 3 to acknowledge auditors as users of the guidance
- Reconsider Objective 4, with its reference to small and medium sized organisations in light of the discussion about accounting basis.
- No additional objectives were suggested

Requests

- To Secretariat: Reconsider Paragraph 7.3
- To PAG: Please provide examples of financial statements and donor reports that would help provide colour and context for the TAG.



Paper 5 Developing the guidance

Discussion digest

- Q1: Standalone guidance would be needs based, easy to use, easy to develop training materials, take the best of what already exists and bring it together.
- But it risks creating ‘another standard’ in a sea of standards – need to consider convergence.
- Companion Guide approach could be strategic option. Allows reference to wider suite and framework in case the guidance does not cover a particular issue.
- Linking to a base or reference standard gives more credibility, but which standard? IFRS, IPSAS, a particular National Standard or IFRS for SMEs? Could exclude people if start from the ‘wrong’ base that some countries not familiar with. Also need to keep updating as the base standard changes over time.

Requests

- To Secretariat: Present the different options in the context of pros and cons, so that consultation paper respondents can be better informed about the implications and trade offs.



Paper 5 Developing the guidance

Discussion digest

- Q2: IFRS for SMEs is not only applicable to ‘small and medium’ organisations, so in that sense it could be a relevant base for an NPO of any size applying accrual basis accounting.
- Although IFRS for SMEs is generally respected, it also has its detractors.
- The guidance could draw on sections from a range of existing standards as applicable: eg IFRS for SMEs, IPSAS.
- If the guidance is to enjoy the credibility of association with an existing standard or set of standards, it needs to be consistently faithful to it, which could make it difficult to ‘cherry pick’ from different standards.

Requests

- None



Paper 6 Stakeholder engagement

Discussion digest

- Q1 PAG members expressed willingness to engage their own networks.
- Q5: Mention somewhere in the project documentation about governance and sustainability. Get great speakers, choose good topics, market the events well.

Requests

- To Secretariat: Provide a messaging matrix – how is this project useful for donors / NPOs / compliance / risk / anti-corruption specialists etc



Paper 7 Representation and diversity

Discussion digest

- Consider these additional stakeholder groups for inclusion on PAG: NGO leaders, decision makers in awarding of grants, Office of inspector generals, national auditor generals, major government donors, community groups
- Note that Latin America is not the same as Central America. Consider including Egypt as a target country. Consider a French speaking country in West Africa such as Senegal.

Requests

- To Secretariat: Provide some resources (text, links, presentations etc) to support PAG members in recruiting further members



Paper 8 Approach to consultation paper development

Discussion digest

- Q1 The Consultation Paper (CP) outline, Part 1 section 2 is headed 'Role of Public accountability'. Outside NPO sphere, this language has different meanings. Suggest: 'public benefit'. In addition to main documents, which will be accessed online, have companion products (teaser summaries, videos etc), targeted at different groups, to draw them into the main document.
- Q2 Each paper could also highlight the donor treatment for a specific issue for context, eg volunteer time, cost share. But there is inconsistency even among donors, so this may be impractical. Crucial to get input from donors during consultation phase.
- The CP needs to be accessible for programmatic people and non-financial users of financial reports, not just technical accountants. This will be achieved by accompanying 'products' such as explainer videos.

Requests

- Part 1 of the CP should include a section specifically addressing the role of donors and donor reporting requirements
- That section (on donors) should highlight some common practices that are relevant to particular issues in Part 2.



Paper 8 Approach to consultation paper development

Discussion digest

- Q3 Worked examples would be very useful for users to visualise the effect of a certain treatment. But if that makes the consultation paper too long, this could be kept for the exposure draft stage. It would none the less be helpful to highlight the impact or knock on effect of a particular treatment where possible, so that respondents can better assess each alternative.
- Q4 The Consultation Paper should focus only on the listed, NPO sector specific issues.
- Q5 The presentation of alternatives is helpful.

Requests

- To Secretariat: Have a downloadable version of the CP that people can access offline.



Paper 9 Long list of issues

Discussion digest

- Q1 The criteria are clear and appropriate
- Q2 Services-in-kind description would benefit from being expanded.
- Q3 It could be clearer where the following issues are included within the long list:
 - Restricted use assets
 - Non-performance related grants / donations
 - Fund accounting principles and presentation
 - Direct / indirect cost classification
 - Transactions by co-implementers / consortia arrangements (when to expense)
 - Income clawback and disallowed costs
 - Foreign exchange differences due to rate changes from donor budgets,
 - Treatment of costs reported costs, subsequently disallowed
 - Presentation and valuation of stock on hand (for use, resale or distribution)

Requests

- To Secretariat: Readers of the CP need to be able to 'see their issue' in Part 1.



Paper 10 Services-in-kind

Discussion digest

- Section 1 describes a broad range of examples of services in kind, whereas the alternatives section only covers volunteer time in kind. There might be different treatment for different types of services in kind.
- Q1 the sections and headings are helpful. Consider renaming section 5: 'Potential financial reporting treatments: Assumptions, exclusions & technical considerations'. Has the annex comparing national treatments been omitted?
- Q2 There is no conceptual framework. Section 2.1 could include issues of control of volunteers, the non financial nature of services, hence valuation etc. 2.4 combines challenges, it would be clearer to separate them out. Consider use of the phrase 'from a technical perspective'. Consider classifying challenges according to measurement, recognition, presentation & disclosure in the same way on each paper.
- Q3 No, PAG members are not aware of any additional relevant guidance

Requests

- To Secretariat: consider the conceptual basis of the guidance



Paper 10 Services-in-kind

Discussion digest

- Q4: The description for alternative 1 covers issues of recognition, measurement and disclosure in the same bullet points. It could be more accessible if it were disaggregated in sub-sections: Recognition, measurement, presentation, disclosure.
- Could the 'do nothing' option always be presented to give a sense of the pros and cons of that for perspective?
- Consider presenting all 4 options (do nothing, as well as the three options presented), indicating that 2 are 'acceptable' or 'best practice' or 'favoured', while the other two are not.
- The impact of 'fair value' could be explained, because it looks deceptively simple at face value. UK SORP has concept of 'value to you'. Incentive to overvalue programmatic services-in-kind vs administrative ones due to the impact on the indirect rate.
- Reconsider use of the phrase 'Not inconsistent with' existing standards. This could be misleading where standards are silent on an issue.

Requests

- To Secretariat: include a glossary of terms, for example 'fair value'.
- To Secretariat: include some rubric about how decisions on 'favoured' options have been reached.