



International Financial Reporting  
for Non Profit Organizations

# Discussion Summary & Requests

PAG Meeting 11 March 2020

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 captures both the spoken contributions and written 'chat' comments shared during the meeting.
- This document should be read in conjunction with the meeting papers and questions available [here](#).



# Attendance

## Notes

The meeting was held online, chaired by Tim Boyes-Watson, and attended IFR4NPO Project team members Samantha Musoke, Karen Sanderson and Phillip Trotter in addition to the following PAG members:

Carolyn Cordery, Chris Harris, Dorothea Malloy, Felipe Mendes, Genny Kiff, Innocent Masikati, Karina Vartanova, Masayuki Deguchi, Pesh Framjee, Phil McMinn Mitchell, Tejas Merh Desai, Ussama Massadeh and Vuyiswa Sidzumo.

## Requests

- None



# Paper 1 Update from TAG

## Discussion digest

- The comments from the PAG were well received by the TAG, who found them very useful.
- Inventory has been added as an additional specific issue in response to PAG advice.

## Requests

PAG requested to share examples of:

- agency relationships, such as 'pass through entities'
- practical examples of cost categories used by jurisdictions, and
- views on the minimum high level categories that should be considered for expenditure classification.



# Paper 2 – Definition of NPOs

## Discussion digest

- Clarify whether there are any characteristics that are more critical than others.
- Consider giving examples of characteristics that would not be typical of an NPO by means of contrast. This is done in New Zealand.
- It could be helpful to include terms generally used to describe NPOs in different countries so that readers can ‘see themselves’. For example charities, associations, foundations, 501c3,
- It could be clarified that ‘Delivery of services’ goes beyond direct delivery to beneficiaries and could include activities such as advocacy, or standard setting.

## Requests

- To PAG: share examples of general language commonly used to describe NPOs in different countries.
- To TAG: Clarify whether any characteristics are more essential than others.



# Paper 2 – Definition of NPOs

## Discussion digest

- Mixed profile entities should be able to apply the principles in the guidance if they have public benefit activities or transactions.
- As an example of legal form, Jordanian NPOs are registered either under the ministry of social development (in which case the entities are tax exempt and all income is classified as ‘grants’) or the ministry of trade.
- Legal form is not one of the characteristics of an NPO, but Governments around the world might use the characteristics based approach in the Guidance to inform their own decisions about legal form over time.

## Requests

Empty box for requests.



# Paper 2 – Trio of projects

## Discussion digest

- One of the goals for Money Where It Counts projects is for donors to buy in to a standard format for their partners to transparently disclose the method by which their indirect cost rate is calculated.
- The two major intersections between MWIC and IFR4NPO relate to expenditure classifications and the possibility for the IFR4NPO Guidance to require or allow for the indirect rate and its calculation method to be disclosed in the financial statements.
- All stakeholder groups represented on the PAG expressed the opinion that these two projects are important and that together the Guidance being developed by IFR4NPO, they can have considerable impact to improve and ease the financial reporting environment.

## Requests

- To Secretariat: Clarify the goal of MWIC in the paper.
- To Secretariat: Keep TAG and PAG apprised of developments in these two projects



# Paper 3 – Donor reporting requirements

## Discussion digest

- Section 3.13 Focus on what drives donors to behave as they do. Mention their own accountability requirements to back donors or Governments or tax payers.

## Requests





# Paper 3 – Basis of accounting

## Discussion digest

- Section 3.17-3.24 If this section is making the case for accrual basis accounting, it needs to be made more clearly and more strongly, setting out advantages and disadvantages of each approach.
- Some organisations maintain cash or modified cash basis because they lack capacity to maintain full accrual accounts. Others have capacity to maintain accrual accounts but maintain modified cash accounts to bridge the gap between their donor and management reporting needs. Statutory accounts prepared by auditors on an accrual basis then have little meaning for either management or donors. It might be worth making this clear so that readers can ‘see themselves’ in the narrative.
- There can be different interpretations of modified cash with a challenge of how to achieve consistency.

## Requests

- To Secretariat:  
Strengthen section 3.17-3.24 on basis of accounting



# Paper 3 – Basis of accounting

## Discussion digest

- Micro entities may not have the capacity to prepare accrual based accounts, and there is a risk of cashflow issues being masked which can cause them problems.
- The TAG is in favour of a tiered approach, focussing on small and medium entities sized entities in this initial stage.
- The TAG does not expect to produce cash or modified cash alternatives for this IFR4NPO project, rather focussing on accrual based financial reports. It is acknowledged that this may not meet the needs of some donor reporting requirements, which should be addressed by engaging and consulting with donors.

## Requests

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# Paper 3 – Cost accounting vs financial accounting

## Discussion digest

- For historical context, one of the reasons for the birth of the USG cost principles (2 CFR 200) which outline rules for allowability, allocability and eligibility, was grantees overcharging overheads after World War II. Donors tend to focus on application of cost accounting principles rather than financial accounting outputs.
- Section 3.24 Emphasise the point that donors sometimes require considerable granularity, even to transaction level.
- Cost accounting is not governed by any financial reporting requirements and varies greatly between different donor agencies. Guidance on cost principles such as allowability, allocability and eligibility is outside the scope of general purpose financial reporting.

## Requests

- To Secretariat: consider outlining the difference between cost and financial accounting in the discussion on donor reporting requirements.