



## Technical Advisory Group

### AGENDA ITEM: TAGCP01- 5

October 3-4, 2019 - London, United Kingdom

### Guidance Format

<b>Summary</b>	The paper sets out format options for developing the Guidance.
<b>Purpose/Objective of the paper</b>	The paper sets out three options for the format of the Guidance, and proposes including two of these in the Consultation Paper – a ‘companion guide’ or interpretations embedded in IFRS for SMEs.
<b>Other supporting items</b>	TAGCP01 –03 Project Objectives
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<b>Actions for this meeting</b>	<b>Advise</b> on the options on the format of the Guidance for inclusion in the Consultation Paper.
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## Guidance Format

### 1. Background

- 1.1 The NPO sector is hugely diverse. For those that benefit from the operations of these organisations that is a major strength, however, this then poses huge challenges in developing and setting standards specifically for the sector.
- 1.2 To date addressing the differences that NPOs have with the for-profit and public sector organisations has been dealt with in a variety of ways across the world; this includes bespoke standards/guidance, interpretations within national standards or no specific guidance or interpretations. There is no common approach to providing guidance even where issued guidance is based on national or international standards.

### 2. Format Options

- 2.1 The Guidance developed by this project needs to be usable and accessible to the range of stakeholders that have relationships with or have a vested interest in the sector including preparers, auditors, professional bodies, funders, beneficiaries, governments and regulators (the NPO community). The Guidance should meet the needs of these groups.
- 2.2 In developing the Guidance for this project, the options available for the format of the Guidance need to be considered. Based on the examples from around the world, there appear to be three lead options:

**Option 1:** Develop stand-alone Guidance that incorporates the requirements of IFRS for SMEs, and provides guidance and interpretations relating specifically to the NPO sector. This would effectively replace IFRS for SMEs for NPO organisations;

**Option 2:** Develop a 'companion guide' that sits alongside the IFRS for SMEs standard that can be used by practitioners in addition to the Standard; and

**Option 3:** Add interpretations and additional explanatory text in the IFRS for SMEs Standard using explanatory text boxes and/or annexes.

- 2.3 Drawing on examples from the UK, each of these approaches can be illustrated as follows:



## International Financial Reporting for Non Profit Organizations

- the UK the Charities Statement of Recommended Practice (SORP)<sup>1</sup> has been developed as a standalone document based on the UK Financial Reporting Standard for Small and Medium-sized organisations (the UK equivalent of IFRS for SMEs).
- the Association of Chartered Certified Accountants issued a "Companion Guide for Not-for-profits to the International Reporting Standard for Small and Medium-sized Entities"<sup>2</sup> in October 2015.
- Public Sector Internal Auditing Standards<sup>3</sup> were issued in 2017. This is based on the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

- 2.4 It may be too early to determine the final format of the Guidance and this will also need to be addressed in the Consultation Paper to understand what constituents might need. However, the TAG will need to agree the options for the format of the Guidance for inclusion in the Consultation Paper. Also as the TAG considers each of the issues for inclusion in the Consultation Paper, it may be beneficial to have in mind now the format of the output of the project.
- 2.5 In thinking through the options, there are specific considerations about how the Guidance will be viewed by the auditing community. With a focus on the Guidance supporting the preparation of General Purpose Financial Statements, the Guidance should be capable of informing the work of auditors in reaching opinions on financial statements. In executing this project there will need to be engaged with the audit community to understand how the Guidance, given its non-mandatory status, will best achieve respect and traction in the audit community.
- 2.6 Developing stand-alone guidance incorporating the requirements of IFRS for SMEs would be a much more onerous undertaking than the other two options it is proposed that Option 1 is not pursued. Based on initial discussions with the IFRS Trustees, the Secretariat believes that Option 2 (the 'companion guide' approach) may prove easier to implement in practice, and could also potentially provide more flexibility in addressing NPO needs. However, it considers that Option 3 has merits and so proposed that the pros and cons of both approaches are evaluated in more depth, with a view to presenting them both in the Consultation Paper.

**Question: Does the TAG agree that options 2 and 3 for the format of the Guidance should be evaluated further, with a view to presenting them both in the Consultation Paper? Does the TAG have a preferred view at this point in time?**

September 2019

<sup>1</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/354885/sorp05textcolour.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/354885/sorp05textcolour.pdf)

<sup>2</sup> [https://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/smb/companion-guide-for-not-for-profits.pdf](https://www.accaglobal.com/content/dam/ACCA_Global/Technical/smb/companion-guide-for-not-for-profits.pdf)

<sup>3</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/641252/PSAIS\\_1\\_April\\_2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/641252/PSAIS_1_April_2017.pdf)