



## Technical Advisory Group

### AGENDA ITEM: TAGCP01- 7

October 3-4, 2019 - London, United Kingdom

## Potential Consultation Paper Issues

<b>Summary</b>	This paper summarises the issues raised through the IFASS Working Group, the 2014 CCAB Report and the ACCA Companion Guide, and proposes criteria to determine which issues are considered within the scope of the project.
<b>Purpose/Objective of the paper</b>	To provide background context on NPO issues as a basis for discussion by the TAG to ensure that the list of issues is complete. The paper also proposes criteria to determine which issues should be considered within the scope of this project. This is to allow the work plan for the Consultation Paper to be set consistent with the proposed objectives of the project.
<b>Other supporting items</b>	TAGCP01 –03 Project Objectives
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<b>Actions for this meeting</b>	<b>Advise</b> on: <ul style="list-style-type: none"><li>• The completeness of the long list of issues</li><li>• The criteria for evaluating the projects</li><li>• The prioritisation of the issues</li></ul>
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### Potential Consultation Paper Issues

#### 1. Background

- 1.1 Many countries have no specific guidance for NPOs and with no international accounting standards for NPOs, reporting varies widely, with the same transactions treated very differently in different countries.
- 1.2 The differences in the treatment of transactions as well issues around narrative reporting have been raised globally for a number years. The situation has been exacerbated by the number of charities and non-government organisations 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, 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 this 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 of difference in accounting treatments in a number of specific areas. These are included in Annex A.



## International Financial Reporting for Non Profit Organizations

- 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, plus 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 has 10 member countries represented and is chaired by CIPFA, which also provides the Secretariat, while the IASB participates 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 has developed a long list of issues and has brought together information from Working Group participants about the various accounting treatments in their jurisdictions. This has been compiled into a not-for-profit platform hosted on the CIPFA website.<sup>1</sup> The issues identified by the Working Group are included in Annex A.
- 2.8 In 2015, the UK the Association of Chartered Certified Accountants 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 a deep experience of charity accounting in the UK.
- 2.9 The 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.

### **3. Long List of Potential CP Issues**

- 3.1 Based on this historical work, there is a known list of issues that are candidates for consideration in the Consultation Paper. Annex A contains a long list of issues that has been compiled from the work undertaken by IFASS

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<sup>1</sup> Link to CIPFA website



## International Financial Reporting for Non Profit Organizations

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.

- 3.2 The issues include income recognition (what should be recognised when and by whom), expenditure recognition (grants and constructive obligations), fund accounting (restricted and unrestricted funds), the form and content of accounts (narrative reporting, presentation of financial statements and notes) and disclosures (public accountability).
- 3.3 Non-exchange transactions features heavily in this list, particularly revenues, grants and property, plant and equipment. Annex A provides a brief description of each of the nature of each of the issues raised to date.

**Question 1: Does the TAG agree that the list of potential issues to be addressed in the Consultation Paper set out in Annex A is comprehensive? Should any be added or deleted?**

#### **4. Criteria for topic selection**

- 4.1 With potentially a large number of issues to consider, there needs to be a clear basis for inclusion of issues within the Consultation Paper and ultimately the Guidance.
- 4.2 The IPSASB faced such a dilemma in determining which projects should be included in its current Work Plan. The IPSASB decided in selecting projects that its long list of potential projects would be evaluated against the criteria, in order to help it assess which projects would provide the greatest public interest benefits to users. It used the following criteria:
  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. **Urgency** - Whether the emerging issue has recently gained prominence and therefore requires consideration in the near term.
  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.
- 4.3 To assess the issues identified for potential inclusion in this project, there need to be criteria to determine whether an issue is a common issue that fits with the objectives of this project. The criteria used by IPSASB could be used by this project or could form the basis of new criteria to be used for IFR4NPO.
- 4.4 There are similarities in the IPSASB issues and as a consequence it is recommended that the IPSASB selection criteria are adopted for evaluating each of the issues. The views of constituents, which at this early stage of the project will be represented by the PAG is important. Feedback from the PAG on the list of issues therefore needs to be fed into the final list to form the Work Plan.



## International Financial Reporting for Non Profit Organizations

**Question 2: What are the TAG's views on the proposed criteria for topic selection? Are any amendments required?**

### **5. Next Steps**

- 5.1 Having agreed the criteria for topic selection, and the long list of Consultation Paper issues, the TAG will be asked as part of a working session during the meeting to carry out an initial assessment of the long list of issues against these criteria.
- 5.2 TAG members will also asked for their views on the prioritisation of the issues that meet the criteria following their assessment of inclusion in the project. This prioritisation will be used to support the development of the Work Plan to ensure that resources are applied to the most important and urgent issues.
- 5.3 The proposed Work Plan will be tabled for consideration on Day 2 of the meeting.

September 2019

## Annex A

### Long List of Issues

	Topic	Issue	IFASS	CCAB report	ACCA <sup>1</sup> Guide
	<b>Accounting for combinations of NFP entities</b>				
1	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	
2	Treatment of branches/definition of control	Should all branches be consolidated irrespective of control. What should be consolidated?	X		X
3	Mergers	Issues arising from the merger of two or more charitable organisations.	X		X
	<b>Accounting for incoming resources</b>				
4	Valuation and recognition of donations	When should these be recognised, including when donations are to be used in a subsequent period.	X	X	X
5	Recognition of grants with performance criteria/performance obligations	Timing of grant recognition and definition of performance criteria/obligation	X	X	
6	Recognition and valuation of Gifts in-Kind	When should these be recognised and at what value, including the valuation of low value items	X	X	X
7	Recognition and valuation of Services in-Kind (including volunteers)	Should volunteer time be recognised and if so on what basis	X	X	X

<sup>1</sup> 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 October 2015.



8	Recognition of legacy/bequest income	When should bequests be recognised and considerations of perpetual trusts.	X	X	X
<b>Accounting for expenditure</b>					
9	Basis of allocation of costs and overheads	Classification between charitable and support costs	X	X	
10	Costs of fundraising	Consistency of recognising the costs of fundraising on a gross basis or netted from income.		X	
11	Government grants	Treatment of charitable distributions		X	X
<b>Fund accounting</b>					
12	Treatment and presentation of unrestricted and restricted funds	The separation of unrestricted and restricted funds that can be used for specific charitable purposes	X	X	X
13	Reserves policy	Guidance and framework for reporting of reserves policies in a not-for-profit	X	X	
<b>Accounting for assets</b>					
14	Heritage assets	Treatment of significant heritage obligations, including the valuation basis of these obligations and the reflection of these in asset values	X	X	
15	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
16	Valuing assets held for social purposes	Valuing of assets that are not held for profit or economic purposes		X	X
17	Impairment of long lived/fixed assets	Defining the indications of impairment	X		X
18	Concessionary loans for social purposes			X	x
19	Service concessions arising in NPOs	When do these arising in the not-for-profit sector e.g. low income housing	X		



	<b>Narrative/performance reporting and transparency disclosures</b>				
20	Narrative reporting	Guidance for narrative/non-financial reporting by NFPs	X	X	X
21	Ratios – definition of funding/expense ratios	Consistency of reporting to provide transparency about the level of overhead to operational expense	X	X	
22	Related party transactions	Measurement of these transactions	X		X
23	Remuneration/pay disclosures	What disclosures should be made and who should it cover.	X		
24	Financial statement presentation	Presentation of financial statements to help user understanding of a charities activities and that also reflect the nature of restricted funds		X	X