



Technical Advisory Group

AGENDA ITEM: TAGCP08- 02

5 May, 2020 – Virtual Meeting

Consultation Paper: Preface

Summary	The paper provides an outline of the preface to the Consultation Paper.
Purpose/Objective of the paper	This paper sets out the topics for inclusion in the preface and the structure of the document so that it can be related to other parts of the CP.
Other supporting items	TAGCP01 – 03 Project Objectives TAGCP02 – 01 Long list of issues
Prepared by	Karen Sanderson

Actions for this meeting	Comment on proposals: <ul style="list-style-type: none">• for the content and structure of the preface.
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Technical Advisory Group

Consultation Paper: Preface

1. Background

- 1.1 The overall objective of the project is to develop internationally applicable financial reporting guidance for NPOs. The aims of the CP phase are to raise awareness of the project, to introduce stakeholders to the objectives and planned development approach for the Guidance as well as proposed issues for discussion.
- 1.2 An outline of the Consultation Paper was proposed in November 2019. This included a preface, which would precede Part 1 of the Consultation Paper (focusing on landscape issues for the sector) and Part 2 (focussing on sector specific issues).
- 1.3 The comments received on the Consultation Paper will guide the plans for the development of the Exposure Draft and ultimately the final Guidance.

2. Developing content for the preface

- 2.1 The preface is intended to communicate the project objectives (including the problems faced by the sector), provide an executive summary of the contents of the consultation paper and help potential respondents navigate the document.
- 2.2 Annex A attached provides a draft outline of the Preface and a contents page.

Question 1: Does the TAG agree with the proposed structure of the Preface?

Question 2: Does the TAG agree with the proposed content of the Preface?

April 2020



International Financial Reporting for Non Profit Organizations

Annex A

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CONSULTATION PAPER - *Issues for General Purpose Financial Reporting by Non-profit Organisations*

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Section 2: What are the accountability and decision making needs?

Section 3: What are the key features need of financial reporting?

Section 4: How can international financial reporting regimes assist NPOs?

Section 5: What is the way forward?

PART 2: NPO Financial Reporting – Sector-specific Issues

Overview of section 2

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Issue 2: Cash transfers

Issue 3: Gifts in kind

Issue 4: Services in kind

Issue 5: Classification of expenses

Issue 6: Grant expenses



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Issue 7: Cost of fundraising

Issue 8: Agency relationships

Issue 9: Control and the reporting entity

Issue 10: Measurement of assets held for their service potential

Issue 11: Measurement of inventory held for use or distribution

Issue 12: Financial statement presentation

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SUPPLEMENTARY INFORMATION

Project background and history

Current NPO financial management initiatives

Analysis of sector specific issues against international standards

National standards and guidance for NPOs

GLOSSARY OF TERMS USED IN THE CONSULTATION PAPER



International Financial Reporting for Non Profit Organizations

PREFACE

1. Background

- 1.1 Non-profit organisations (NPOs) increasingly operate across borders. This requires international NPOs to register and report in different countries that have different financial reporting requirements.
- 1.2 There are no international accounting standards for NPOs and few countries have bespoke standards or guidance for NPOs. Financial reports are therefore prepared using accounting standards developed for the private or public sectors. These do not for the most part address those issues and concepts specific to the non-profit sector.
- 1.3 Inconsistent, low-quality reporting increases costs for the sector. The lack of transparency, consistency and comparability of financial reports causes complexity and additional financial reporting burdens for NPOs. It also risks poor decision making.
- 1.4 Large donors use financial statements to assess health and capacity of potential partners, but struggle to do this effectively because there are many differences in the form and content of NPO financial statements.
- 1.5 International guidance would increase consistency, transparency and the reliability of NPO financial statements. It also has the potential to reduce compliance costs, releasing funds for front-line activities.
- 1.6 A 2014 international survey, which had more than 600 responses from 179 countries found that 72% of respondents agreed or strongly agreed an accounting standard or guidance specifically for NPOs would be useful.
- 1.7 The International Financial Reporting for Non-Profit Organisation project is an initiative to respond to these issues. The project is being funded by donations and grants and being delivered by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum, both themselves NPOs. For further information about the history of the project and the collaboration partners, see Supplementary Information – Project Background and History.

2. Project Objectives

- 2.1 To address the issues identified, the project has the following two objectives:

Objective 1: To improve the quality and consistency of NPO financial reports, with an internationally applicable financial reporting framework that meets the general financial reporting requirements of funders and regulators in assessing the financial health and capacity of NPOs.

Objective 2: To improve the transparency and comparability of NPO financial reports by developing internationally applicable Guidance to address common



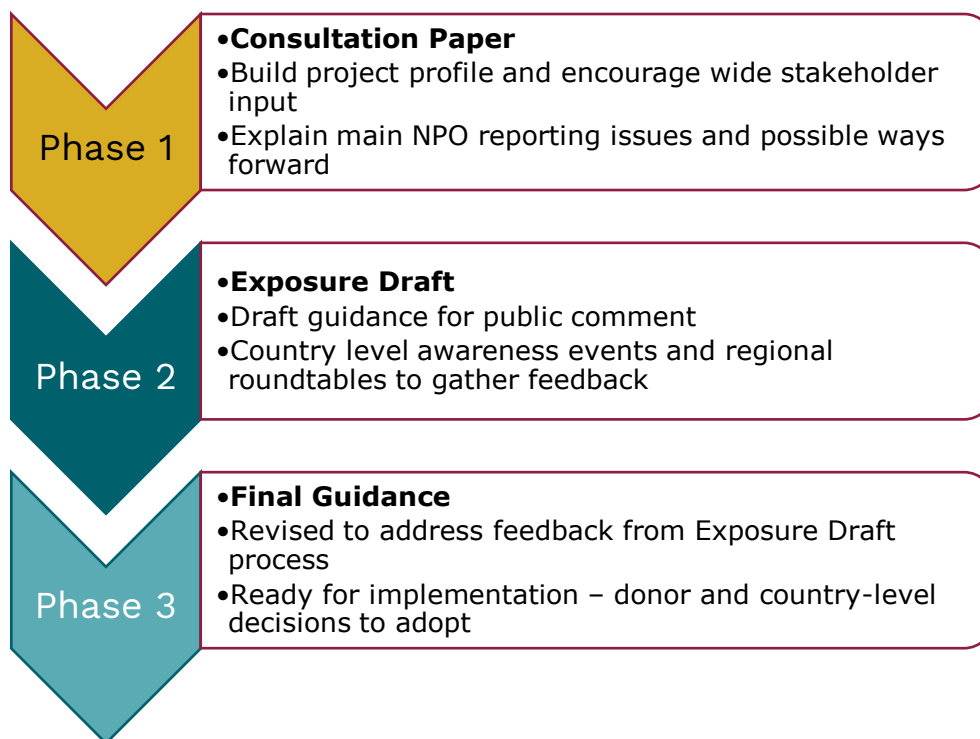
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NPO sector specific issues for the benefit of preparers in providing accountability to funders and other stakeholders.

- 2.2 The NPO sector comprises many different types and sizes of organisations. Whilst it is proposed that the initial guidance predominantly benefits small and medium sized NPOs, in subsequent stages, (if there is the demand), guidance could be developed for the very largest and smallest NPOs.
- 2.3 The Guidance is intended to be capable of being adopted by any jurisdiction globally. In common with all international financial reporting standards, adoption of the Guidance will be a local decision.

3. Consultation Paper Aims

- 3.1 This Consultation Paper is central to the first phase of the project and has been developed in accordance with the three phase process being adopted to deliver the project. The responses to the Consultation Paper will be used to inform the next Phase of the project; the development of an Exposure Draft.



- 3.2 The overriding aim of this Consultation Paper is to engage stakeholders on the need for international financial reporting guidance for NPOs, and the issues that are important to those individuals or organisations that have an interest in NPO financial reporting. This includes for example, senior executives in NPOs, grant makers, regulators, auditors, NPO finance teams, academics and members of the public that support NPOs.

- 3.3 This Consultation Paper discusses key aspects of NPO financial reporting, and uses these to create a proposed 'straw man' for the guidance model. This is



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to ground responses from constituents and generate feedback from a common base. The reaction to these approaches will inform future considerations about solutions and feed directly into the development of the Exposure Draft. The Exposure Draft will be the first point at which detailed solutions are developed, so feedback now is of critical importance to the project.

- 3.4 The Consultation Paper material has been structured to allow comment on some or all aspects of the Consultation Paper. This is intended to encourage input from a wide range of individuals or organisations with differing interests in NPO financial reporting.
- 3.5 The Consultation Paper has been developed with the advice of a Technical Advisory Group, comprising a number of national standard setters and a Practitioners Advisory Group, comprising individuals from across the NPO community. In order to have the widest possible consultation, the Technical Advisory Group, which is providing technical accounting advice, has not at this stage provided a preference for any of the approaches outlined in the document.

4. Consultation Paper Scope and Structure

- 4.1 The Consultation Paper has been developed in two parts to allow readers to access the material which is of most interest.

Part 1 deals with the broader issues relevant to General Purpose Financial Reporting in the non-profit sector. It includes the scope of entities to whom the Guidance might apply, the role of accountability and decision making, the features needed of financial reporting for NPOs and describes the suitability of existing international accounting frameworks. Part 1 includes **General Matters for Comment**, with a number of questions about the NPO landscape on which feedback is sought. Part 1 is written for a more general audience as it deals with the broader issues. Information that is more technical in nature is provided in text boxes, so that it is available for those with a technical interest.

Part 2 sets out the process for the identification of key sector specific issues, with a description of the nature of each issue, and proposes criteria for selecting issues to be included in the first Guidance. It also provides more in depth analysis and consideration of alternative approaches to those sector specific issues that it is proposed would be addressed in the initial version of the guidance, based on relevant existing international and national guidance. Part 2 includes **Specific Matters for Comment**, with a number of questions about the specific issues and approaches for addressing these going forward. Part 2 is written for an audience that is interested in the technical accounting considerations of specific issues.

- 4.2 In addition there are a number of pieces of **supplementary material**, to support the content in Part 1 for those who are seeking additional information. These materials also provide further information about the project and how the Consultation Paper has been developed.



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- 4.3 A **glossary of terms** used in the Consultation Paper has been constructed. The purpose of the glossary is to provide a general meaning for terms used in the Consultation Paper to enable readers from all over the world have a common understanding of terms used and to be able to engage with the issues and questions raised. The terms used and explained in this glossary are not intended to be used as definitions in the eventual guidance, since many have specific meanings in different jurisdictions and in national and international accounting and other professional frameworks.
- 4.4 Respondents may respond to all questions raised in the Consultation Paper or choose to respond to certain elements. This includes the ability to respond to only certain specific issues in Part 2, with no requirement to respond to all issues. There is no minimum number of matters for comment that can be addressed in a response. However, the greater the number of responses received, the richer the feedback for the project team to consider.

5. Responding to the consultation

- 5.1 Comments are welcome on all of the matters discussed in this CP. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.
- 5.2 **Comments are requested by July x, 2021.** Please provide your comments as a word document wherever possible and submit comments **electronically** through the #IFR4NPO website (www.ifr4npo.org), using the 'Submit a Comment' link on the Consultation Paper page. All comments will be considered a matter of public record and will ultimately be posted on the #IFR4NPO website.
- 5.3 Although #IFR4NPO prefers that comments be submitted electronically, e-mail may be sent to karen.sanderson@cipfa.org. Comments can also be mailed to:

Head of Programme, #IFR4NPO
Chartered Institute of Public Finance and Accountancy
77, Mansell Street,
London,
E1 8AN