

IFR4NPO Project

Discussion Summary and Requests Practitioner Advisory Group meeting

17 June 2020
PAGCP03



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 recording and chat log 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:

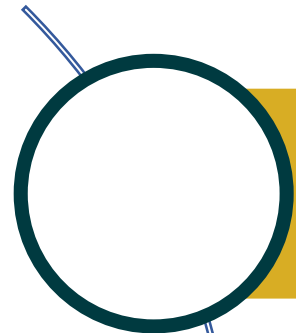
Carolyn Cordery, Chris Harris, Dorothea Malloy, Felipe Mendes, Genny Kiff, Innocent Masikati, Karina Vartanova, Masayuki Deguchi, Monica Kirya, Pesh Framjee, Phil McMinn Mitchell, Tejas Merh Desai, Ussama Massadeh and Vuyiswa Sidzumo.

Requests

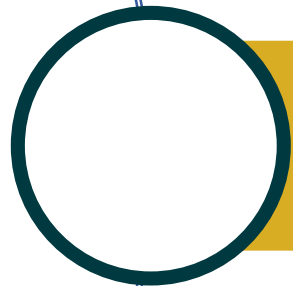
PAG members were requested to send through any suggested edits or drafting points after the meeting.



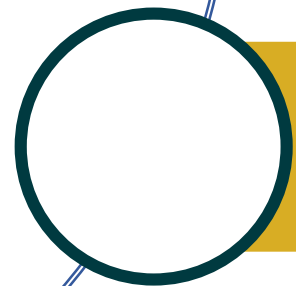
Session outline



Preface (Agenda item 2)



Consultation Paper Part 1, Sections 1 & 5 (Agenda item 3)



Fundraising Costs (Agenda item 4)

Paper 2 Preface to Consultation Paper

Discussion summary

Consultation Paper Contents and structure

- It would be helpful if the contents page signposted more clearly where the issue of different stakeholders and their needs is addressed.
- Fund Accounting is a key aspect in many (but not all) jurisdictions, but it is not clear that it is covered in the Consultation Paper.
- 'Agency relationships' is likely to be misread as 'Relationships with Funding Agencies'.
- Assets with 'service potential' might be better rephrased as 'service benefit'.
- The heading for gifts-in-kind could be clearer that it includes gifts of capital assets.

Requests

Paper 2 Preface to Consultation Paper

Discussion summary

Background

- Para 1.1 'operating across borders' risks appearing to exclude NPOs that do not operate internationally. Suggest putting para 1.2 first.
- Para 1.2 'International Accounting Standards' presents the same risk. Suggest 'common standards or standards that are applicable internationally.'
- The introduction could include why international accounting standards are important at all, and that private and public sectors have benefitted from them.
- Consider making the point that the Guidance developed by this project would service as a basis for a future standard for non-profit financial reporting.

Requests

Paper 2 Preface to Consultation Paper

Discussion summary

Objectives

- Objective 1 could remove the mention of scope at the end, to be addressed separately later on.
- Objectives 1-3 seem to contain some overlap (eg accountability, comparability) and not easy to immediately see how they differ.
- Objective 2 mentions users and preparers without defining who they are. Where do top management sit for example?
- Objective 3 assumes that readers already acknowledge that there are non-profit sector specific issues at all, but this is not true in all countries, eg Japan; this case needs to be made.
- The terms 'credibility' and 'trust' do not appear in the objectives or introductory text.

Requests

Paper 2 Preface to Consultation Paper

Discussion summary

Scope and audience

- It could be useful to distinguish between scope and audience for the Consultation Paper versus for the Guidance.
- The Consultation Paper audience should be as wide as possible, so no one excludes or disqualifies themselves from engaging with it.

Requests

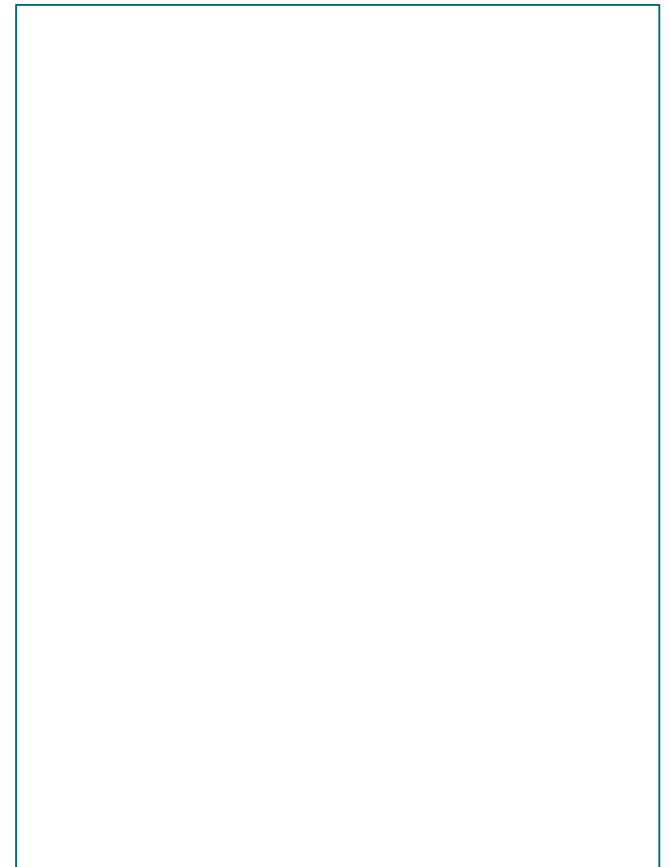
Paper 3 CP Part 1, Section 1

Discussion summary

Characteristics of NPOs – Fig 1.1

- The term 'service delivery' is not exclusive to non-profit organisations. In Asia the term 'service without expectations' is common. But this is also problematic as it implies organisations should not generate income from their activities.
- The concept of public benefit is relevant, but needs to be distinguished from public sector – the John Hopkins classification includes independence from Government as a criterion.
- Membership organisations such as community micro finance schemes benefit their members rather than the public. Need to be clearer whether they are included.

Requests



Paper 3 CP Part 1, Section 1

Discussion summary

Characteristics of NPOs – Fig 1.1 contd

- Para 1.4 makes the case that we should be focusing on the economic events and transactions of NPOs, but an entity's purpose is neither an economic event nor a transaction.
- 'Voluntary (non -reciprocal) funding as a significant income source' is not a defining characteristic – many NPOs have no voluntary income. Non distribution of profits is more key.
- Tax exempt status may be a relevant characteristic in a few jurisdictions.

Requests

Include the term 'Voluntary funding' in the glossary.

Paper 3 CP Part 1, Section 1

Discussion summary

Scope and applicability

- Since applicability will be decided by regulators or funders, it could be clearer that Fig 1.2 relates to the types of entities that were ‘front of mind’ when developing the Guidance, rather than entities it will apply to.
- Make it clearer that large organisations preparing accrual based accounts are not ‘out of scope’, even if some of their accounting issues are not covered by the Guidance.
- There is no inherent reason for micro-sized entities to be ‘out of scope’ if they are preparing accounts on an accrual basis.

Requests

Separate meeting to discuss the issue of cash or modified cash accounting as required by many funders.

Paper 3 CP Part 1, Section 1

Discussion summary

Scope and applicability (contd)

- The logic that 'micro-sized entities are out of scope because they prepare accounts on a cash basis' implies that larger organisations (such as those described in Para 1.10) prepare accounts on an accrual basis, which is sometimes not the case because of funder requirements.
- The needs of micro-sized entities should not be forgotten. Entities would find it helpful to have a road map of how to progress from very basic accounting to more complex models as their needs change.

Requests

Separate meeting to discuss the issue of cash or modified cash accounting as required by many funders.

Paper 3 CP Part 1, Section 5

Discussion summary

- Suggest replacement of the terms 'strawman' and 'bespoke' with more appropriate and plain English alternatives.
- Some members expressed concern with IFRS for SMEs as the start point, citing that its conceptual basis (ie that of IFRS) is premised on 'for-profit' entities, it is not up to date, and in their experience it is not all that widely used in practice.
- Para 5.6 Third bullet notes that 'auditors' are likely to be familiar with IFRS for SMEs, yet many auditors around the world focus on donor audits than rather than statutory entity audits and may be less familiar with it.
- The paper should make clear that there are other options, and that the suggested proposal is for the purposes of the Consultation Paper.

Requests

Paper 3 CP Part 1, Section 5

Discussion summary

- There are cash basis and modified cash basis standards or models available from national jurisdictions and funders – can they be used as part of the solution?

Requests

Separate meeting to discuss the issue of cash or modified cash accounting as required by many funders.

Paper 4 CP Part 2, Fundraising costs

Discussion summary

- What is unique about fundraising costs that is not covered by international accounting standards – eg explain if and how are they qualitatively different from selling costs?
- Para 1.1. There is a need to make a case for the potential value or benefit of reporting fundraising costs at all, given the inherent problems with misinterpretation of associated ratios outlined in Para 1.7.
- Fundraising costs, like indirect costs, are frequently subject to cost eligibility criteria of funders, which may impact on the extent to which they may be charged to different funds.
- There is some duplication between sections 1 and 2 regarding gross and net reporting.

Requests

Paper 4 CP Part 2, Fundraising costs

Discussion summary

- Para 2.1. The nature of spend is not a consideration - fundraising costs are entirely a matter of functional analysis.
- Section 4 on existing national guidance seems thin. Consider referencing Annex A which provides more detail.
- The example given in Para 1.6 of the museum shop could be strengthened.

Requests

PAG members to send through any additional drafting points.