



# IFR4NPO Project

## Discussion Summary and Requests Practitioner Advisory Group meeting

4 August 2020  
PAGCP04



# 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 Samantha Musoke, and attended IFR4NPO Project team member Karen Sanderson in addition to the following PAG members:

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

## Requests



# Session outline

- Preface - objectives (Item 1)
- Accounting basis – feedback on CP (Item 2a)
- Accounting basis – Supplementary resource (Item 2b)
- Donor reference group (Item 3)

# Item 1 Project objectives

## Discussion summary

### **Preface, para 3.1**

- Objective 1: refer to the concept of trust as well as the credibility of NPO financial reports.
- Objective 2: 'NPO information' could be clarified as 'financial' information
- Objective 3: 'NPO sector specific' issues – this should either be not-for-profit / non-profit sector issues or NPO specific issues
- Para 2.4 Replace 'reduce confusion' with more positive language such as 'improve comparability'
- It could be helpful to mention who the Guidance is targeted at earlier in the preface.

## Requests

- Ensure that reference to 'non-profit' or 'not-for-profit' is consistent throughout the entire Consultation Paper as well as use of the terms 'donors' and 'funders'.

# Item 1 Project scope

## Discussion summary

### **Draft CP, Chapter 5**

- The target audience, described in Chapter 5 is presented as a proposal, for feedback. All NPOs could potentially benefit from the Guidance, but organisations in receipt of international funds and with more complex operations are more likely to be main beneficiaries.
- Some NPOs that are considered among the target audience for the Guidance are required to submit donor reports on a cash-basis.
- The CP should identify early on that regulators at jurisdiction level are a key target audience for the Guidance, as well as donors and NPOs that award grants, since they often set the rules that NPOs have to comply with.

## Requests

Empty box for requests.



# Item 2a Accounting Basis in CP

## Discussion summary

### **Draft CP Part 1, Sections 2 & 3**

- Chapters 2 and 3 are well argued.
- Preface para 3.2 could be improved by referencing existing international standards, which are accrual based. This Guidance needs to be accrual based if it is to be credible at that level.
- Custom in different countries affects how accrual accounting is applied to non exchange transactions.
- Valuation is very difficult for some non-exchange transactions. This has been used against NPOs in Japan, for example libraries or museums have been shut down because they could not value gifts in kind in their financial statements.
- Full accrual accounting, including non exchange transactions, is done by many NPOs around the world, eg UK, US, Europe, Australia, Singapore eg recognising a grant expense when it is committed, not just when it is paid, especially where pledges or promises are legally binding.
- 'Full accrual accounting' accommodates the recognition of certain transactions on a cash basis as appropriate, as defined by the requirements of relevant standards.

## Requests

Empty box for requests.



# Item 2a Accounting Basis in CP

## Discussion summary

### **CP Part 1, Sections 2 & 3**

- This Guidance will be for the preparation of financial statements using the accrual basis, much as we need to acknowledge the prevalence for cash and modified basis accounting.
- Accounting basis could be presented as a continuum, ie cash based and accrual based at either end with varying degrees of 'modified cash' in between
- In Switzerland some of the guidance on accrual basis accounting still leaves quite a lot open to interpretation – the principles need to be very clear.
- Para 3.21 on Special Purpose Financial Reports could be expanded to acknowledge that such financial reports are frequently accompanied by management commentary on issues such as variances and achievements against targets.

## Requests



# Item 2b Supplementary resource

## Discussion summary

### **Target audience for the supplementary resource**

- Regulators and donors could be a key audience for the supplementary resource, to bring them on the journey of supporting relevant NPOs to account according to best practice, ie on an accrual basis.
- This could be a good resource for NPOs lacking the skill to do accrual accounting.
- Some NPOs have qualified accountants and are able to do accrual accounting, but donors require cash basis. This could be a tool to support a more constructive conversation with donors.
- Further discussion needed on the target audience of the resource so that it is positioned appropriately – whose life is it going to make better?

## Requests

Empty box for requests.

# Item 2b Supplementary resource

## Discussion summary

### **Modalities for sharing the resource**

- Located on Humentum site, Humentum branded, also linked from IFR4NPO website.
- Share the supplementary resource material as widely as possible to encourage the NPO community to engage with the issues.
- Share in Humentum Connect, present at the next meeting of European Foundation Centre (and other equivalent donor gatherings).

### **Timing and status of information**

- As soon as possible, certainly before the Consultation Paper.
- Invite people to change and contribute to the map for a period, but then fix it at a certain time.

## Requests

# Item 2b Supplementary resource

## Discussion summary

### **Annex A content**

- The complexity map as a continuum is very helpful.
- Make it clearer who the document is aimed at and how the complexity map tool could be used. It is not self-explanatory how to use or apply it.
- Make the complexity map clearer, eg the positioning of the sentences, headings and colours.
- Add more examples, eg community contributions to a construction project, in cash or in kind, or buying and selling an asset to support the steps and complexity
- Consider the presentation of fund accounting because it can be either cash or accrual basis. The practice of fund accounting should include income as well as expenses.
- Consider a matrix rather than linear format, and separating exchange and non-exchange transactions.
- Reflect the experience in different countries and not just on the impacts in western cultures.

## Requests

- PAG requested to provide any drafting comments
- PAG to share examples of any terms which should be supported by glossary



# Item 2b Supplementary resource

## Discussion summary

### **Annex A content**

- Re use of language relating to 'advanced' or 'progress', 'above, below' in relation to the transition from cash to accrual, moving from left to right on the map. Cash or modified cash may be appropriate in some contexts, especially for smaller organisations. But adopting accrual accounting can provide better or more useful information for organisations that are of an appropriate level of complexity to benefit from it.
- The term 'hybrid' accounting/method is used in USA to mean 'modified-cash' or 'modified-accrual' accounting. Using it to refer to the practice of accounting on a cash basis during the year and making accrual-based adjustments only at the year end could therefore be confusing.
- Provide a glossary of terms to support Annex A, eg 'cost recovery' could be misinterpreted as cost management or reduction rather than maximising income.
- Consider inclusion of single-entry bookkeeping (ie transaction list without any analysis) at the simplest level of cash accounting.
- Fig 1, showing the impact of record keeping, entity reporting and donor reporting needs more explanation. For example, make the case for donors that cash basis information does not give entity wide, decision useful information for all users.

## Requests

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# Item 3 Donor Reference Group

## Discussion summary

- The PAG fully endorses engaging with donors as soon as possible.
- Include online meeting options as well as face-to-face ones.
- Consider sub-groups by donor type (eg foundations, government agencies, bi-laterals etc) as their needs are so different. But there is also value in mixing, for donors to appreciate the various different needs and perspectives.
- Within larger donors, consider the right people to engage with – finance and contracts, audit and risk teams. The individual/s responsible for approving a grant application, or an expenditure report. PAG members may be able to help make connections.
- Allow members to choose whether they would prefer to contribute on their own behalf as individuals, or formally on behalf of their organisations.

## Requests

- IFR4NPO Project team to prepare a draft email that PAG members can reach out to appropriate donor contacts.