

Practitioners Advisory Group

AGENDA ITEM: PAGCP05-07

24 September 2020 – Online

Feedback on the Draft Consultation Paper – Part 2 NPO Specific Issues

Summary	The paper highlights the main areas of feedback on Part 2 – NPO specific issues to the Consultation Paper.
Purpose/Objective of the paper	This paper describes at a high level the most significant issues arising from the feedback from TAG and PAG members and the proposed way forward. It does not address proposals for detailed edits. Further information will be provided in an information pack to be distributed separately.
Other supporting items	PAGCP05-04, PAGCP05-06, PAGCP04-08
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Actions for this meeting	<u>Comment</u> on proposed way forward.

Practitioners Advisory Group

Feedback on the draft Consultation Paper – Part 2 NPO Specific Issues

1. Background

- 1.1 As highlighted in the paper PAGCP05-05 a full draft of the Consultation Paper was provided to members of the Technical Advisory Group (TAG) and Practitioner Advisory Group (PAG) in July 2020 for internal review.
- 1.2 General matters and issues raised with the Preface have been covered in the paper PAGCP05-05. This paper focuses on the most significant issues raised in Part 2 of the Consultation Paper.
- 1.3 The Technical Advisory Group were asked to consider specific questions across the documents, particularly about the alternatives proposed in Part 2 and the relationship between Part 1 and Part 2.
- 1.4 This paper is focused on the more significant or pervasive issues raised through the feedback, where the issue and the proposed way forward will be discussed. A separate pack will be provided that will detail the comments made and the proposed revision to the text proposed, where appropriate.

2. Part 2 Overview and general matters

- 2.1 As raised in other feedback the consistency of terminology and definitions needs to be addressed. Explicitly the use of the terms users and stakeholders was raised. The Secretariat is of the view that users are a subset of stakeholders and therefore it is valid to use both terms. This will be made clear in the text where appropriate.
- 2.2 There was feedback around the positioning of foreign exchange transactions (Table 2.1). Foreign exchange transactions are currently included in the section about the presentation, content and scope of financial reports. In Annex A this topic has been shown twice, once under accounting for incoming resources, but

also under the presentation, content and scope of financial statements. The inclusion of this topic is based on the understanding that the issue with foreign exchange transactions relates primarily to project reporting where donors require the use of particular exchange rates for individual projects. The accounting for foreign exchange transactions in itself is not believed to be an NPO specific issue. The PAG is invited to comment on this understanding.

- 2.3 It was suggested that a ‘Schedule of Expenditures for donor funds (prepared from NPO general purpose financial statements)’ be added to the issue on grant expenses. The idea of including a schedule that addresses financial reporting for donors is addressed in issue paper 7 on the presentation of financial statements. It is proposed that this concept remains in issue paper 7 rather than in grant expenses.
- 2.4 It was also suggested that a contents page be added to the beginning of Part 2, which will be progressed.
- 2.5 With respect to the alternatives, some members suggested that where there are advantages and disadvantages that are common to all alternatives, these should be removed completely from the table of alternatives. This is supported and will be actioned in the next draft. In addition, where an advantage or disadvantage arises because all proposals go beyond existing international standards (e.g. additional NPO specific guidance) this will be described in the narrative description in Section 5.
- 2.6 A couple of members questioned whether Section 4 on National Guidance is needed. It is proposed to retain Section 4 in each issue paper as it provides information about whether national guidance adopt similar approaches to an issue or variable approaches. However, it is proposed that Annex A to each issue paper is removed from Part 2 and included in the supplementary information annex that describes national guidance.

Question 1: What are the PAG’s views on the proposed ways forward?

Question 2: What are the PAG’s views on the nature of the issue relating to foreign exchange transactions set out in Table 2.1?

Question 3: Are there any other general issues that the project should consider?

3. Issue Papers 1 and 2 (Matters related to the reporting entity)

- 3.1 It was suggested that additional text be added to Section 1 of issue paper 1 (Reporting Entity) to explain in more detail the complex reporting structures that NPOs might experience. Similarly, there were suggestions to provide more examples to aid engagement. It is proposed to flesh out the challenges and provide more examples in the explainer videos that will be developed to support the launch of the Consultation Paper rather than expand the text. This is to manage the document size.
- 3.2 Feedback was received on issue paper 1: paragraph 2.3 about the application of the control concepts to NPOs. It was suggested that this might need further consideration as it may not be merely a matter of adapting existing guidance such as shareholder influence. This will be considered further in the Exposure Draft development stage.
- 3.3 It was suggested that the text in alternative 2 to issue paper 2 (NPOs acting on behalf of other entities) is too similar to alternative 3. The proposal is to retain the 3 alternatives as they are based on the existing different international accounting frameworks. Additional explanation will be provided about why the alternatives are similar and opportunities to consolidate the text will be examined.
- 3.4 There were helpful suggestions about further sources of information and real world examples that can be used to inform the development of the Exposure Draft.

Question 4: What are the PAG's views on the proposed way forward?

Question 5: Are there any other significant issues relating to the Preface that the project should consider?

4. Issue Paper 3 (Revenue)

- 4.1 Reviewers of the revenue issue paper suggested that the focus should be on non-exchange transactions as this is where the majority of NPO specific issue lie. It was proposed that exchange transactions be removed from the issue paper. This will be actioned, and references to exchange transactions will be moved to the overview page.
- 4.2 Feedback was that sub-headings for type of transaction in sections 1 and 2 should be removed, but the table summarising which paragraphs relate to which type of transaction was helpful and should be retained. It was suggested that the text be organised exclusively around recognition, measurement and disclosure. This will be actioned in the next draft.
- 4.3 There was feedback that the term cash transfers has specific meaning for NPOs. It is therefore proposed to change the term from cash transfers to cash contributions.
- 4.4 It was suggested that sections 1 and 2 of this issue paper be combined because of duplication between the sections. Secretariat proposes to retain the two sections but to focus section 1 on the high-level issues for the sector, with section 2 focusing on the more granular financial reporting challenges. Retaining the two sections would maintain consistency with other issues papers. Other feedback on section 1 will be considered once the redrafting has been completed.
- 4.5 A new table was proposed in section 5 to provide an alternate summarisation of the alternatives. This table focuses on the underlying accounting framework for each of the alternatives. This proposal will be incorporated into this issue paper. Additionally, consideration is being given to the benefits of including such a table in the other issues papers.
- 4.6 A number of respondents felt that there were too many alternatives with the outcome of some alternatives producing similar outcomes. The number of alternatives was driven in part by different treatments of exchange transactions. With the removal of exchange transactions from the issue paper It is proposed to merge alternatives 3 and 5, which now provides a single alternative based on IPSAS and to remove alternative 6 which was based on full IFRS. This reduces the number of alternatives to 4.

- 4.7 Feedback was received on the use of materiality to not apply standards (listed in the disadvantages in the alternatives table), with concern about how this might be used. It is proposed to review this as part of the next draft.

Question 6: What are the PAG's views on the proposed way forward?

Question 7: Are there any other significant issues relating to the Preface that the project should consider?

5. Issue Paper 4 (Grant expenses)

- 5.1 It was suggested that the terms service recipient and grant recipient be introduced in paragraph 1.2. This is supported and will be incorporated into the next draft.
- 5.2 As noted in PAG paper PAGCP05-05, there was feedback about the inconsistent use of terminology, where both the Financial Performance statement and Income statement is used in the issue paper. It is proposed to use Financial Performance Statement to refer to the statement of operating activities (income and expenditure).
- 5.3 There was also feedback on the alternatives, with questions about the differences between alternatives 2 and 3. It is proposed to retain the alternatives but to amend the text to make clearer the differences between the alternatives.

Question 8: What are the PAG's views on the proposed way forward?

Question 9: Are there any other significant issues relating to the Preface that the project should consider?

6. Issue Papers 5 and 6 (Matters relating to non-financial assets)

- 6.1 A question was raised regarding the similarities between service potential and value in use with respect to the measurement of non-financial assets held for service potential. Secretariat will assess the relevance and use of these terms and update the text and glossary accordingly.
- 6.2 Several edits were proposed, including clarification about the inclusion of material on leases in the issue paper. There is no intention to include leases in this paper and references will be removed.
- 6.3 There were no comments on the issue paper on inventory held for use or distribution. The paper will be updated in line with other general points, but otherwise no further edits are proposed

Question 10: What are the PAG's views on the proposed way forward?

Question 11: Are there any other significant issues relating to the Preface that the project should consider?

7. Issue Papers 7,8,9 and 10 (Matters relating to scope content and format of financial reports)

- 7.1 There was feedback on paragraph 1.2 of issue paper 7 (Presentation of Financial Statements) about the language used to describe resources. One member felt that this should include reserves and another that references should be to economic resources. It is proposed to use the term economic resources in the next draft.
- 7.2 There were also comments on issue paper 7 about the consistency of terminology particularly between accrual-based and accruals-based. It is proposed to use the term accrual-based throughout.



- 7.3 Comment was received on the number of alternatives in issue paper 8 (Classification of expenses), with the view that there are too many. Secretariat agrees that the number of alternatives should be reduced and is exploring how the alternatives can be consolidated so that there are no more than 4.
- 7.4 It was noted that issue paper 8 (Classification of expenses) did not set out the practical issues associated with analysing expenses and was inconsistent with paper 9 (Fundraising costs). This is agreed and amendments will be made in the next draft.
- 7.5 A member questioned what was meant by direct fundraising costs and whether they would be defined as only direct costs attributable to fundraising activities. They also raised a question as to whether direct and indirect fundraising costs would be presented separately. This will be picked up in the Exposure Draft phase, and edits will be made to improve the description of the issue.
- 7.6 Feedback was received that the inclusion of segmental reporting in paragraph 3.4 of issue paper 9 (Fundraising costs) needs to be explained alongside the broader implications of segmental reporting. This is accepted and revisions will be made in the next draft.
- 7.7 A member questioned whether using the International Integrated Reporting Code (IIRC) as set out in alternative 3 of issue paper 10 (Narrative reporting) was consistent with Part 1 of the Consultation Paper. Secretariat accepts that as an independent framework it arguably does go beyond the proposals in Part 1. The links to Part 1 will be made clear in section 5 in the next draft.

Question 12: What are the PAG's views on the proposed way forward?

Question 13: Are there any other significant issues relating to the Preface that the project should consider?



September 2020