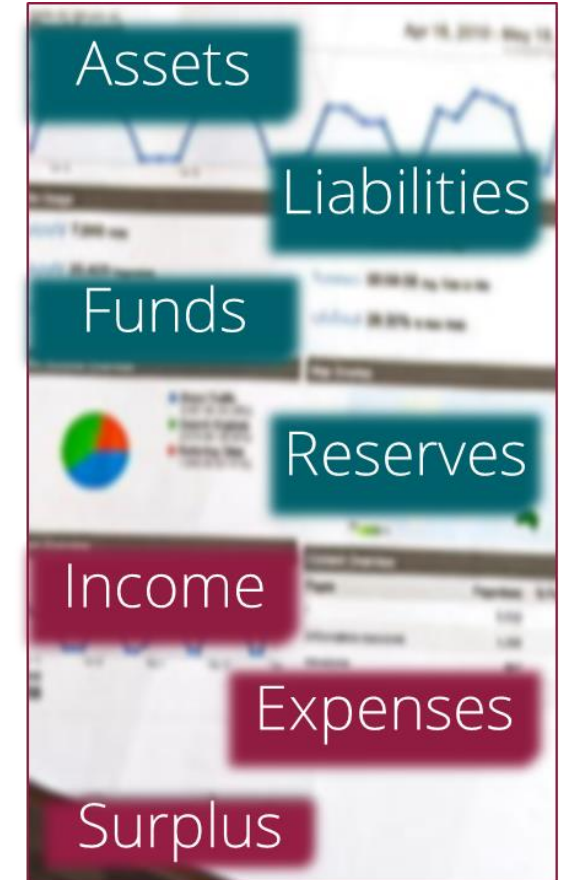


IFR4NPO Project

Feedback on Part 1



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Feedback – Part 1

	Issue	Proposed Way Forward
	Chapter 1: What are Non-Profit Organisations?	
1	Figure and description of NPOs showing an overlap with for-profit and government entities could be improved. Non-profit sector would not overlap with for-profits, a reference to private sector in their jurisdictions would not imply for-profit entities only, and the description could potentially include government-business entities.	Agreed to change the figure and description. It is proposed to update the figure and description used for NPOs by making greater use of the sectoral classification in statistical accounting frameworks. This will more clearly distinguish which entities are in the private and government/public sectors and the extent to which they can be described as non-profit.
2	Insufficient use made of existing international frameworks for describing NPOs.	Agreed. As noted above it is proposed that greater use will be made of existing international frameworks. The structural and operational features of non-profit institutions identified in the System of National Accounts will be used and supplemented with a focus on key economic events and transactions relevant to financial reporting.
3	Text that indicates which NPOs are most likely to benefit from the Guidance has been moved to Chapter 5. This should be retained in Chapter 1 or moved earlier in the Consultation Paper to provide context and support the explanation of project objectives.	It is proposed to retain the text in Chapter 5 but include text about who the Guidance will most likely benefit in the Executive Summary. A new paragraph will be included in Chapter 1 to improve the link between the description of NPOs in this Chapter with the discussion on accountability and decision-making needs of stakeholders and users of financial information in Chapter 2.

Part 1 – Chapter 1

- Main points for discussion:
 - What is the TAG's view on the proposed positioning of who will benefit from the Guidance

Feedback – Part 1

	Issue	Proposed Way Forward
	Chapter 2: Who are NPO stakeholders and what are their needs?	
4 & 5	Text which examines the information needs of stakeholders in Chapter 2 paragraphs 2.11 to 2.16 covers a broad range of service, performance and management information and is not primarily related to financial accounting information. There is insufficient distinction in these paragraphs (2.11-2.16) on the difference between accountability and decision-making. The existing wording is in the sections below:	It is proposed to improve the distinction between the information needs of stakeholders and those of users of financial reports. It is proposed to better delineate between accountability and decision-making needs. Proposed revised wording is set out in the sections below.
	2.11 The information needs of service users, resource providers, and government, regulatory and similar bodies have some similarities, even though they arise from different perspectives.	Accountability involves an organisation providing information to external stakeholders. Decision-making involves those external stakeholders then determining a course of action on the basis of the information provided and the options available to them. The high-level accountability and decision-making information needs of service users, resource providers, and government, regulatory and similar bodies have some similarities, even though they arise from different perspectives.
	2.12 External stakeholders need to know if the NPO is achieving its objectives . The primary objective of an NPO is to deliver services for the public benefit, and the NPO needs to demonstrate that resources have been used to deliver services of sufficient quality for service users.	External stakeholders need to know if the NPO is achieving its objectives. The primary objective of an NPO is to deliver services for the public benefit, and the NPO needs to demonstrate that resources have been used to deliver services of sufficient quality for service users. If the NPO cannot demonstrate that it is achieving its objectives resource providers may for example reduce or withdraw the funding they provide to the NPO or regulatory bodies may decide to withdraw privileges provided to the organisation.

Feedback – Part 1

	Issue	Proposed Way Forward
	<p>2.13 The NPO also needs to demonstrate that these services have been delivered in a way that maximises economy and efficiency in the use of resources. This will entail securing inputs of sufficient quality at appropriate cost, and investment in the appropriate amount of administration infrastructure to ensure optimal service delivery.</p>	<p>The NPO also needs to demonstrate that these services have been delivered in a way that maximises economy and efficiency in the use of resources. This will entail securing inputs of sufficient quality at appropriate cost, and investment in the appropriate amount of administration infrastructure to ensure optimal service delivery. An inefficient NPO is likely to face pressure from service users and funders to improve its operations and direct resources more effectively to service delivery.</p>
	<p>2.14 External stakeholders will also require information to show that the NPO is complying with restrictions and regulations. Resources are often provided for specific purposes by donors, who will need assurance that they have been used only for these purposes. Government, regulatory and other similar bodies will need confirmation that the NPO is complying with broader regulations in areas such as operations, governance, purchasing and financing.</p>	<p>External stakeholders will also require information to show that the NPO is complying with restrictions and regulations. Resources are often provided for specific purposes by donors, who will need assurance that they have been used only for these purposes or they may require the resources to be returned to them. Government, regulatory and other similar bodies will need confirmation that the NPO is complying with broader regulations in areas such as operations, governance, purchasing and financing. Without this confirmation, these bodies may revoke regulatory or financial privileges afforded to the NPO.</p>

Feedback – Part 1

	Issue	Proposed Way Forward
	2.15 Finally, the NPO will need to show that this is being achieved with regard to its longer-term financial health . External stakeholders will want to know that the NPO can continue achieving its objectives. It will need therefore to provide them with information on the sustainability of the levels of its reserves, demonstrate that it has a diverse and reliable funding mix, and that it has the resources required to meet both current and future costs related to levels of expected activity.	Finally, the NPO will need to show that this is being achieved with regard to its longer-term financial health. External stakeholders will want to know that the NPO can continue achieving its objectives, especially if they are utilising the NPOs services or providing financial resources to it. It will need therefore to provide them with information on the sustainability of the levels of its reserves, demonstrate that it has reliable funding sources, and that it has the resources required to meet both current and future costs related to levels of expected activity.
	2.16 In meeting these needs, information provided to stakeholders will need to be understandable, relevant, reliable and comparable.	In meeting these needs, information provided to stakeholders will need to be understandable, relevant, reliable and comparable. Stakeholder information needs cover a wide range of management and performance information related to an NPO and its activities. Their information needs as users of an NPO's financial information will be more specific, with a greater focus on key financial indicators such as revenue and expenditure, and how resources have been utilised on individual programmes.
6	There are a number of assertions made in Chapter 2. These might overstate the extent to which donors make decisions based on the financial reporting that will be covered in the Guidance, and whether donor reporting requirements are driven more by their own reporting needs rather than an absence of common reporting standards and formats.	It is proposed to amend wording in this area to soften a number of the assertions. This will recognise that donors will continue to require NPOs to report directly to them. It will be noted that IFR4NPO can support a reduction in reporting burden by enabling donors to make greater use of NPO financial reports and potentially reducing reporting requirement diversity if common standards are increasingly adopted by donors.

Part 1 – Chapter 2

- Main points for discussion:
 - What is the TAG's view on the proposed description of stakeholder needs in Chapter 2

Feedback – Part 1

	Issue	Proposed Way Forward
	Chapter 3: What are the essential aspects of NPO financial reporting guidance?	
7	Insufficient explanatory information was provided in paragraph 3.2 as to why the two propositions (accrual-based accounting and the inclusion of narrative forms of reporting) are core.	It is proposed that the discussion on the two core propositions is better linked to Chapter 2 and the distinction between the information needs of stakeholders and those of user of financial information.
	<p>3.1 The Guidance needs to be developed using core propositions aligned with the objectives of the Guidance.</p> <p><i>Objective 1: To improve the quality, transparency and credibility of NPO financial reports.</i></p> <p><i>Objective 2: To support the provision of NPO information that is useful for decision making and accountability, balancing the needs of preparers and stakeholders.</i></p> <p><i>Objective 3: To address key NPO sector specific issues by increasing the comparability of NPO financial reports.</i></p>	<p>Financial reporting frameworks are based on concepts that are aligned to their overall objectives. These concepts underpin the standards and other guidance within the frameworks to provide coherence. Similarly, NPO financial reporting Guidance needs to be developed using core premises aligned with the objectives of the Guidance:</p> <p><i>Objective 1:</i> To improve the quality, transparency and credibility of NPO financial reports.</p> <p><i>Objective 2:</i> To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.</p> <p><i>Objective 3:</i> To address specific NPO issues, which will promote increased comparability of NPO financial reports.</p>

Feedback – Part 1

	Issue	Proposed Way Forward
	<p>3.2 This Chapter explains the rationale for the two core propositions; accruals-based accounting and the inclusion of narrative forms of reporting. The following sections discuss each proposition and explains why they are necessary to meet the project objectives.</p>	<p>Chapter 2 provided an overview of the high level information needs of stakeholders and users of an NPO's financial information. These included requirements such as understanding the extent to which an organisation is achieving its objectives, abiding by regulations and restrictions, and has longer-term financial sustainability. This Chapter explains the rationale for the two core premises proposed for the development of NPO financial reporting Guidance that are essential to meeting these stakeholder and user needs and the three Guidance Objectives. These are:</p> <ul style="list-style-type: none"> • accrual-based accounting – which is internationally recognised as the best basis for providing a comprehensive view of an organisation's financial performance and position, improving the quality and transparency of financial reports and enhancing accountability and decision-making; and • the inclusion of non-financial reporting information – in order to provide context to financial information and additional information about the organisation's projects, programmes and wider activities required to meet broader stakeholder information needs. <p>The following sections discuss each premise and explain why they are necessary to meet the project objectives.</p>

Feedback – Part 1

	Issue	Proposed Way Forward
8	There needs to be recognition in the discussion of accounting bases that some donors do use modified cash accounting and reporting and face challenges with respect to non-financial reporting needs and budget versus actual analysis.	Agreed. It is proposed that text will be amended to provide greater recognition of the use of modified cash based information and the continued requirement of donors for information outside of the financial reporting covered by IFR4NPO.
9	In discussion of the different types of financial report, there needs to be recognition of Special Purpose Financial Reports that combine donors' rules and financial formats but also include programme and contract related management commentary.	The description of Special Purpose Financial Reports in this section was intended to cover both Special Purpose Financial Statements and the broader type of special purpose reporting noted in feedback. It is proposed that the relevant paragraphs be amended to reflect this.

Part 1 – Chapter 3

- Main points for discussion:
 - What are the TAG's view on the proposed introduction to chapter 3 that talks about accrual-based reporting and narrative reporting?
 - Is the case for accrual-based accounts sufficient?
 - What are the TAG's views on the General Matters for Comment?

Feedback – Part 1

	Issue	Proposed Way Forward
	Chapter 4: How far can international financial reporting regimes assist NPOs?	
10	The argument as to why an international framework would provide a better solution to NPO specific issues than a national framework or standard tailored to NPOs is not sufficiently clear.	It is proposed to amend the relevant paragraphs on international applicability in Chapter 4 to strengthen the arguments as to why the Guidance needs to be developed from an international framework.
11	Figure 4.2: <i>Guidance provided by frameworks to sector specific issues identified</i> , is confusing and overly detailed given the proposed audience for this part of the CP.	It is proposed to significantly simplify the Figure by utilising only the three key colours, changing the description of applicability and reducing detail in the analysis. Detail will be retained in the Supplementary Information.

Feedback – Part 1

	Issue	Proposed Way Forward
12	<p>The familiarity of preparers, users and auditors with IFRS for SMEs may be overstated.</p> <p>4.32 The IASB advises that 86 countries require or permit the use of IFRS for SMEs, with a further 9 currently considering its application. With the IASB estimating that approximately 95% of all entities are SMEs under the IFRS definition, familiarity with IFRS for SMEs could be at least as prevalent as for full IFRS. However, as the IASB's figures demonstrate a number of jurisdictions that require IFRS for publicly accountable bodies use national standards for smaller entities.</p>	<p>It is proposed to change the text in this area to indicate that there is uncertainty over familiarity and to also change text in Chapter 5 relevant to familiarity as well.</p> <p>The IFRS Foundation advises that 86 jurisdictions require or permit the use of IFRS for SMEs, with a further 9 currently considering its application. These include jurisdictions such as the United Kingdom that have developed financial reporting standards using IFRS for SMEs at their core. The IFRS Foundation estimate that approximately 95% of all entities are SMEs under the IFRS definition, so although not used in as many jurisdictions as full IFRS, familiarity with IFRS for SMEs could be higher than the comparison of jurisdiction figures suggests. As the IFRS Foundation figures also demonstrate, however, a large number of jurisdictions that require IFRS for publicly accountable bodies use national standards for non-publicly accountable entities.</p>

Feedback – Part 1

	Issue	Proposed Way Forward
	<p>5.5 IFRS for SMEs is suggested as the foundational international framework on the basis that it:</p> <ul style="list-style-type: none">• provides a simplified standalone set of standards and reduced disclosure requirements in a number of areas compared with IPSAS or IFRS, that are expected, in most cases, to be more appropriate for the NPO context;• is aligned with the full IFRS conceptual framework and due process;• may have relatively higher familiarity and acceptance amongst regulators, preparers, auditors and users internationally; and• is the most feasible solution as it would require the lowest level of initial and ongoing resource to develop and maintain the Guidance.	<p>IFRS for SMEs is suggested as the foundational international framework on the basis that it:</p> <ul style="list-style-type: none">• provides a shorter, simplified standalone Standard with reduced disclosure requirements compared with IPSAS or full IFRS, and accounting requirements that are expected, in most cases, to be appropriate for the NPO context;• is aligned with the full IFRS Standards including the conceptual framework and developed in compliance with the IFRS Foundation's due process requirements;• may have an acceptable level of familiarity and acceptance amongst regulators, preparers, auditors and users internationally; and• is the most feasible solution as it would require the lowest level of initial and ongoing resource to develop and maintain the Guidance.

Feedback – Part 1

	Issue	Proposed Way Forward
13	<p>Given that IFRS for SMEs is undergoing comprehensive review, there is a question as to whether the framework is stable.</p> <p>4.42 Once developed, it would not need to be subject to continual monitoring and update because of the limited updates to the standard. This would be expected to reduce the resource required to develop and maintain the Guidance</p>	<p>The argument regarding stability is that the framework is updated less frequently than for the other frameworks.. Revised wording: IFRS for SMEs is a simplified framework, that is updated on average every five years or so, with requirements that are not relevant or tailored to meet the needs of smaller entities removed. Developing initial guidance from a standard that is approximately 250 pages as opposed to the approximately 2000 pages that comprise full IFRS or IPSAS would be easier. Once the Guidance is developed, it would not need to be subject to continual monitoring and update because, although IFRS for SMEs is currently undergoing a comprehensive review, updates to the IFRS for SMEs standard are periodic rather than continual. This would be expected to reduce the resource required to develop and maintain the Guidance.</p>

Feedback – Part 1

	Issue	Proposed Way Forward
	Chapter 5: Proposed way forward	
14	Disagreement with the use of IFRS for SMEs as the foundational framework for the Guidance, due to the issues raised with familiarity and stability but also because it is developed for for-profit entities and would need significant adaptations to reflect the non-profit context.	It is proposed that paragraph 5.5 be amended to reflect changes made to text in Chapter 4. The proposed model in Chapter 5 provides a framework for the Guidance where IFRS for SMEs does not provide financial reporting standards appropriate for the non-profit context.
15	Figure 5.3 and the use of service delivery and sources of funding as axes to the 9 box grid should be changed. Focus instead should be on whether reporting needs and the organisations operations are simple or complex.	The Secretariat's view is that the proposed changes do not improve the argument made in paragraphs 5.13 to 5.15. It is therefore not proposed to make substantive changes to the figure, although as part of the design process changes to the presentation are currently being explored.

Part 1 – Chapters 4 and 5

- Main points for discussion:
 - What are the TAG's views on the presentation of IFRS for SMEs in chapters 4 and 5
 - What are the TAG's views on the General Matters for Comment?