



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGCP11-06
20 October 2020 – Online

Feedback on the Draft Consultation Paper – Executive Summary

Summary	The paper provides the TAG with the first draft of the Executive Summary to the Consultation Paper
Purpose/Objective of the paper	This paper provides an overview of the draft Executive Summary to the Consultation Paper. The draft Executive Summary is provided as Annex A.
Other supporting items	N/A
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Actions for this meeting	<u>Comment</u> on the draft of the Executive Summary.



Technical Advisory Group

Draft Executive Summary

1. Background

- 1.1 The Executive Summary is designed to summarise the key points of the Consultation Paper. It aims to restate the purpose of the project and the Consultation Paper, highlight the major issues discussed in each Part of the Consultation Paper, and describe the proposed way forward.
- 1.2 This paper provides a brief overview of the Executive Summary. The PAG have not yet had an opportunity to comment on the draft as it had not been finalised at the time of their last meeting in September 2020.

2. Overview of the Executive Summary

- 2.1 The Executive Summary provides an overview of the current issues faced by NPOs due to an absence of common international accounting standards. It notes that the aim of the IFR4NPO project is to respond to these issues through the development of internationally applicable financial reporting Guidance for non-profit organisations. The Guidance will be developed over a 5-year time frame to meet three project objectives
- 2.2 The Executive Summary then examines Part 1 of the Consultation Paper. It indicates that this Part is aimed at a broad audience, that it discusses the NPO financial reporting landscape, and considers this in the context of the project objectives. A summary of the main content and conclusions from each Section is provided, including the proposed model developed in Section 5.
- 2.3 Finally the Executive Summary gives a brief overview of Part 2 of the Consultation Paper. It notes that Part 2 considers NPO specific accounting issues and is aimed at those involved in the preparation and audit of NPO financial statements, as well as those who make extensive use of NPO financial reports. It indicates how sector specific issues have been identified and prioritised, along with the approach taken to examine and provide alternative approaches to address each issue.

3. Issues for consideration and input requested from the TAG

- 3.1 The Executive Summary will necessarily reflect the content of the Consultation Paper as a whole so will be subject to change to reflect any amendments made to the Preface, Part 1 or Part 2. Taking this into consideration, the views of the TAG are being sought on the extent to which the Executive Summary currently provides an effective summary of the key points of the Consultation Paper.
- 3.2 The Executive Summary should be succinct and is potentially too lengthy as currently drafted. A decision has not yet been taken on which parts of the Consultation Paper, if any, will be translated into languages other than English. Depending on this decision the Executive Summary could be translated into a number of different languages, and may potentially be the part of the document that is most accessible to readers who have limited English. Any decision to remove content must take this into consideration.

Question 1: What are the TAG's views on the extent to which the Executive Summary provides an effective summary of the key points of the Consultation Paper?

October 2020

Annex A

Executive Summary

There are no common international accounting standards for Non-Profit Organisations (NPOs) that are available to be used in every country around the world. Globally, private and public sector entities and their stakeholders have benefited from the development and use of international accounting standards for many years. There is now an opportunity to generate similar benefits for NPOs.

The preparation of financial statements is crucial for accountability and decision making and for trust and confidence in NPOs. However, only a few countries have developed at national level accounting standards or guidance that address the unique characteristics of NPOs and the types of transactions they undertake.

Donors have developed financial reporting requirements to meet their individual needs, in part due to the lack of an accepted international accounting framework, which has resulted in variety of financial reporting requirements. Together with different jurisdictional requirements they can create a heavy burden for NPOs.

Guidance that can be applied internationally could reduce the burden on NPOs and improve the usability of financial reports. An international solution to NPO specific financial reporting issues that will benefit a broad range of NPO external stakeholders will improve the transparency, credibility and comparability of NPO financial reports.

The International Financial Reporting for Non-Profit Organisation (IFR4NPO) project is intended to respond to these issues by strengthening NPO governance and financial management through the development of internationally applicable financial reporting Guidance for non-profit organisations ('the Guidance'). The Guidance will be developed over a 5-year time frame to meet the following three objectives.

Objective 1: To improve the quality, transparency and credibility of NPO financial reports.

Objective 2: To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

Objective 3: To address specific NPO issues, which would promote increased comparability of NPO financial reports.

Part 1: NPO Financial Reporting – Overall Guidance Approach

Part 1 of the Consultation Paper is aimed at a broad audience. It discusses the NPO financial reporting landscape and considers this in the context of the project objectives.

The Consultation Paper proposes a broad characteristics approach to describe the types of organisations which are most likely to fall within the scope of this Guidance. They are organisations that:

- have the primary objective of delivering services for public benefit; and/or
- direct any surpluses to furthering their primary service delivery objective; and/or
- derive income from voluntary funding; and/or
- hold and use assets for social purposes.

NPO stakeholders need financial reporting information that enables them to know that an NPO is achieving its objectives in a way that maximises economy and efficiency in the use of resources, while complying with restrictions and regulations, and with regard to longer term financial health.

General Purpose Financial Reports, prepared on an accrual basis that reflect the common needs of a wide range of stakeholders will allow the project objectives to be met. Accrual-based financial information provides a more comprehensive view of an entity's financial position and performance. It improves the information that can be used to hold management to account and make funding and other decisions. Non-financial information can provide additional information needed for accountability and decision-making purposes such as an understanding of an entity's objectives, strategy, risks, and performance.

It is proposed that the Guidance draws on existing international frameworks to leverage the due process under which they have been developed and enable the project to deliver within its 5-year timeframe. There are currently three international reporting frameworks - International Financial Reporting Standards, the International Financial Reporting Standard for Small and Medium Entities, and International Public Sector Accounting Standards. NPO standards developed in individual jurisdictions will also be an important source for developing the Guidance.

The international frameworks have important similarities but also differences. When assessed against suitability criteria, they each displayed different potential benefits and issues as a basis for the Guidance.

A proposed model has been developed to provide a credible option for developing the Guidance. This model proposes IFRS for SMEs as its foundational framework and draws on full IFRS, IPSAS, and jurisdiction level standards, where these better meet the needs of

NPOs. This proposal can be delivered within the project timeframe and performs better overall against suitability criteria than any one individual framework.

Development of the Guidance is proposed to focus initially on key NPO specific accounting issues that have the most effect on NPOs. While the Guidance will benefit all NPOs, it is expected that these initial specific issues are most likely to be relevant to NPOs that have more complex reporting requirements because of their funding or operational arrangements.

Part 2: NPO Reporting – Sector Specific Issues

Part 2 of this Consultation Paper considers NPO specific accounting issues and is aimed at those involved in the preparation and audit of NPO financial statements, as well as those who make extensive use of NPO financial reports.

It raises questions that are relevant to the project objectives, such as improving the transparency of NPO financial reports whilst balancing the needs of preparers and users.

This Part of the Consultation Paper sets out how key sector specific issues have been identified to date, provides a description of the nature of each issue and describes the criteria for prioritising the issues to be considered.

Additional analysis is provided for the sector specific issues currently prioritised. This includes a description of the issue, why this creates a financial reporting issue and how this is addressed in international and/or a selection of national standards and guidance. Alternative approaches that could be pursued to address each issue are also included to generate feedback. These alternatives are consistent with the proposed model developed in Part 1 Chapter 5.

Issues include accounting for definition of a reporting entity, revenue from donations, grants and goods and services in-kind, grants expenses, fundraising costs, measuring assets held for social benefit, inventory, and presentation issues associated with financial statements and non-financial reporting.