

Practitioner Advisory Group

Issue Paper

AGENDA ITEM: [PAGED05-1xxx](#)

16 March 2022 – Online

Narrative Reporting

Summary	This paper sets out proposals for developing narrative reporting guidance for NPOs taking into consideration the responses received to the Consultation Paper.
Purpose/Objective of the paper	To provide the PAG with an overview of the responses to the Consultation Paper and to describe the proposed approach to developing narrative reporting guidance for the INPAG.
Other supporting items	None
Prepared by	Philip Trotter
Actions for this meeting	<p>For the PAG to provide advice on:</p> <ul style="list-style-type: none">• Sector specific difficulties that NPOs may face in (i) collecting, verifying and reporting non-financial data, (ii) assuring that data and (iii) ensuring that non-financial information reporting is fair and balanced.• The proposed approach to developing narrative reporting guidance, the extent to which it will meet user needs, and any further or different elements and/or specific requirements that should be required.• To what extent PAG members see sustainability reporting as a priority area for non-profit guidance from the perspective of both preparers and users?

Practitioner Advisory Group

Narrative Reporting

1. Background

- 1.1 The IFR4NPO Consultation Paper proposed in Part 1 that one of the core premises of the INPAG if it were to meet Guidance objectives would be the inclusion of non-financial reporting information. This would lead to NPOs producing General Purpose Financial Reports (GPFRs) rather than just General Purpose Financial Statements (GPFS).
- 1.2 A detailed description of the issue was included as part of Issue 10: Narrative Reporting in Part 2 of the Consultation Paper. This highlighted the importance of non-financial information for NPOs to demonstrate accountability and stewardship to stakeholders, and the difficulty caused by varying disclosure requirements globally.
- 1.3 This paper provides the PAG with an overview of the responses to the Consultation Paper and the proposed approach to developing narrative reporting guidance for the INPAG. Advice is sought from the PAG on any further issues that the Secretariat should consider beyond those received from respondents to the Consultation Paper, and the proposed approach to developing narrative reporting guidance.

2. Consultation Paper responses

Part 1

- 2.1 Respondents to Part 1 of the Consultation Paper were asked to provide feedback on what they deemed the challenges would be from guidance that included non-financial information reporting requirements for NPOs.
- 2.2 At a more conceptual level, respondents highlighted the following:
 - **Scope** – what to include to ensure comparability and consistency between NPOs whilst also being relevant and applicable across a diverse range of entities.
 - **Timing** – the guidance should leverage from initiatives which were ongoing to develop international non-financial reporting frameworks, but as these were still in development consideration needed to be given to the timing of introducing reporting requirements.
 - **Prescription and flexibility** - given the diversity of NPOs and their activities, NPOs would need the guidance to provide them with the freedom to report in a way

that best met their user's needs, while also ensuring consistency in the application of common high level-principles.

- **Reliability and integrity of data** – including the extent to which non-financial information was auditable or subject to other forms of assurance.
- **Integration with existing reporting** –how best to ensure that the guidance can build on or integrate with existing NPO performance reporting to donors and other stakeholders to reduce reporting burdens on NPOs.

2.3 Respondents also raised a number of more practical challenges including:

- **Capacity and capability** –collecting, verifying and reporting relevant data would be difficult for many NPOs, as would measuring non-financial information when compared to financial information.
- **Costs, skills and expertise** – would be limited in some NPOs, especially amongst those that would be transitioning to accrual-based accounting.
- **Subjectivity** – how could the guidance assist in ensuring that NPOs were able and required to report in a fair and balanced way.

Part 2

2.4 For Part 2, respondents were asked to provide feedback on the description of the issue and the alternative treatments proposed (1. Do nothing - 2. Approach based on existing IASB/IPSASB guidance - 3. Approach based on the <IR> framework). They were also asked to provide views on the extent to which the guidance should be set at the level of an overarching framework and high-level principles, or include more specific reporting requirements.

2.5 Part 2 responses were supportive of the description of the issue (96% agree) and mainly in agreement with the list of alternatives identified (77% agree). Substantive comments received from respondents included a need for a fuller understanding of user's needs to determine how they can be met, which could require a solution not presented as an alternative. There was also support for narrative reporting to focus on an NPO's public benefit objectives, its impact, the effectiveness of the organisation's governance structures and processes, and broader sustainability issues, rather than being restricted to financial statements analysis.

2.6 With respect to the alternatives put forward in the Consultation Paper there was little support for the do nothing alternative which was widely seen as a missed opportunity. There was relatively even support amongst those providing a preference for the other alternatives, with the approach based on the <IR> framework (50%) being slightly more favoured than an approach based on IASB/IPSASB guidance (37%).

- 2.7 Those favouring the IASB/IPSASB guidance approach indicated that it would complement the information in the financial statements and would be less complicated for NPOs to apply. Those favouring the <IR> framework approach felt that although more ambitious it offered an opportunity for NPOs to apply emerging best practice and deliver standardised narrative reporting based on stakeholder needs.
- 2.8 With respect to whether guidance should be set at the level of an overarching framework and high-level principles or if specific reporting requirements or recommendations would be required, the majority of respondents noted that the diversity of NPOs and jurisdictions pointed to the need for a framework and principles solution. Some of these respondents noted, however, that this would need to be backed by detailed guidance on how to apply the framework and principles.

- **Question 1:** What advice does the PAG have on specific difficulties that NPOs may face in (i) collecting, verifying and reporting non-financial data, (ii) assuring that data and (iii) ensuring that non-financial information reporting is fair and balanced.

3. Proposed approach for developing the Exposure Draft on Narrative Reporting

- 3.1 Analysis of the responses to the Consultation Paper supports a framework and principles approach that provides a core set of requirements that can be applied by all NPOs. The narrative reporting solution needs to be adaptable, so that NPOs that wish to go beyond this core can do so provided that the key elements that are important to users of all NPO GPFRs have been met. This would ensure a base level of consistency and comparability amongst all NPOs applying the INPAG, while providing NPOs the freedom to move beyond this to meet the needs of the users of their GPFRs.
- 3.2 A mandatory framework and principles approach to narrative reporting based on the existing IASB Practice Statement and IPSASB Recommended Practice Guidelines (RPGs) is proposed. These have been proposed instead of the the <IR> framework as they are expected to be less complicated for NPOs to apply, and will complement the information in the financial statements rather than require NPOs to also apply broader integrated reporting principles. The requirements of the IASB Practice Statement and IPSASB RPGs will be tailored to meet the needs of

users of NPO GPFs and to reflect the capacity and capability of the NPOs that the INPAG is initially aimed at. Guidance will also be provided to NPOs to assist them in applying these requirements.

- 3.3 The IASB Practice Statement and IPSASB RPG 2 provide guidance for preparing and presenting narrative commentary to discuss and analyse an entity's financial statements. Adapted from these frameworks, it is proposed that the INPAG requirements will be developed so that NPOs will need to report on the following elements:

Element	Description
An overview of the NPO's operations and the environment in which it operates.	To enable users to understand the NPO's operations and how the environment in which it operates affects its financial statements.
Information about the NPO's objectives and strategies.	Discussion of the NPO's objectives and strategies relating to its financial position, income and expenditure, and cash flows in a way that enables users of the financial statements to understand the NPO's priorities and to identify the resources that must be managed to achieve these objectives and strategies.
An analysis of the NPO's financial statements including significant changes and trends in an entity's financial position, income and expenditure and cash flows.	Discussion and analysis describing the significant items, transactions and events that have affected the financial position, income and expenditure and cash flows, without simply reiterating the information presented in the financial statements.
A description of the NPO's principal risks and uncertainties that affect its financial position, income and expenditure, and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.	The NPO's principal risks and uncertainties that affect its financial position, income and expenditure and cash flows should be described including an explanation of how this relates to the objectives and strategies of the entity and how these are managed. This information will help users to evaluate the impact of those risks in the current period as well as expected outcomes.

- 3.4 The IPSASB RPG 3 also provides guidance on reporting performance information on services delivery. Adapted from this framework, it is proposed that the INPAG requirements will be developed so that NPOs will need to report on the following elements:

Element	Description
NPO goods and service performance objectives.	<p>Goods and service performance objectives will be a description of the planned result(s) that an NPO is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.</p> <p>Goods and service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency; or through a combination of one or more of these four performance indicators. A goods or services performance objective may also be expressed using a narrative description of a desired future state resulting from provision of goods and services.</p>
Performance indicators.	Performance indicators may be quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an NPO is using resources, providing goods and services, and achieving its goods and service performance objectives.
Achievement of goods and services delivery performance objectives.	The goods and services performance information presented should be tailored to the NPO's goods and services performance objectives. Information on actual goods and services performance may include effectiveness performance indicators.

- 3.5 Reporting on these elements could represent the minimum mandatory core of narrative reporting requirements. For NPOs that have the capacity and capability to go further, the guidance could permit the use of other frameworks and existing performance reporting to donors and other stakeholders provided the minimum mandatory core requirement is met. This could include applying the <IR> framework, an alternative which had the highest level of support amongst respondents to Part 2, should NPO's wish to do so.
- 3.6 Although there was a relatively healthy response to Part 1 with over 50 individual responses, fewer than 30 respondents answered the Specific Matters for Comment on narrative reporting in Part 2.
- 3.7 A focus group on narrative reporting focussed specifically on users needs will be held, possibly in April, to supplement the responses to the CP and to test views on

this proposed solution, amended as necessary to incorporate the views of the PAG,. This will enable the Secretariat to gain a broader range of evidence on which to develop more detailed guidance, and to ascertain whether this proposed solution will meet user needs and provide an effective minimum mandatory core for narrative reporting requirements.

- **Question 2:** To what extent does the PAG believe that the proposed approach to developing narrative reporting Guidance will meet users needs? Are there any further or different elements and/or specific requirements that should be required?

4. Sustainability reporting

- 4.1 A number of respondents to the Consultation Paper questioned whether narrative reporting for NPOs would include or support broader sustainability reporting. Sustainability and environmental, social and corporate governance (ESG) reporting frameworks that were mentioned by respondents as potentially requiring consideration included those of the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB).
- 4.2 The IFRS Foundation has also recently announced the creation of a new standards-setting board – the International Sustainability Standards Board (ISSB) - which will incorporate the SASB. The stated intention for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.
- 4.3 The proposed approach to narrative reporting would not prevent NPOs from applying sustainability reporting frameworks, whether existing or still under development. Developments in sustainability reporting do however appear to be aimed primarily at the needs of the private sector and private sector users. It is not clear at this point that NPOs will be readily able to apply the guidance or that it will take the needs of the sector into consideration.
- 4.4 While there is a clear limit to the extent that this can be addressed as part of the IFR4NPO project, especially during the initial development of the INPAG, developments in this area and their impact on broader reporting requirements are expected to become increasingly important and will need to be monitored.

- **Question 3:** To what extent do PAG members see sustainability reporting as a priority area for non-profit guidance from the perspective of both preparers and users?