

Practitioner Advisory Group

Issue Paper

AGENDA ITEM: PAGED06-01

15 June 2022 – Online

Narrative Reporting

Summary	This paper updates the PAG on proposals for developing narrative reporting guidance for NPOs, taking into account feedback from the PAG, the TAG and further discussion at a focus group on the initial proposals.
Purpose/Objective of the paper	To provide an overview of the updated proposals for developing narrative reporting guidance for the INPAG, and to gain the PAG's views on what aspects of the guidance should be mandatory and whether narrative reporting should be subject to a longer transition period.
Other supporting items	N/A
Prepared by	Philip Trotter
Actions for this meeting	<p>For the PAG to provide advice on:</p> <ul style="list-style-type: none"> • The updated approach to developing narrative reporting; • The aspects of the proposed approach that should be mandatory for NPOs; and • Whether a longer transition period should be permitted for NPOs to apply the narrative reporting guidance.



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Narrative Reporting

1. Background

- 1.1 The PAG were provided with an overview of responses to the Consultation Paper and an initial proposed approach to developing narrative reporting guidance for the INPAG at the March 2022 meeting.
- 1.2 As a result of feedback obtained from the PAG to this initial proposal, additional input from a focus group held in April and the TAG meeting held in May, the proposals have been further updated and refined.
- 1.3 This paper provides the PAG with an overview of the proposed approach that takes account of this feedback. Advice is sought from the PAG on the updated proposed approach, the aspects of the proposed approach that should be mandatory for NPOs, and whether a longer transition period should be permitted for NPOs to apply the narrative reporting guidance compared to the rest of INPAG.

2. Updated proposed approach

- 2.1 The PAG previously provided advice on a proposal for a framework and principles approach to narrative reporting guidance based on the existing IASB Practice Statement and IPSASB Recommended Practice Guidelines. This proposal required NPO's to present narrative commentary to discuss and analyse the financial statements and report performance information on goods and services delivery.
- 2.2 The PAG provided a range of feedback to the proposed approach, including:
 - the need to ensure that the approach and language was adapted further to make it sector specific, particularly with respect to performance reporting;
 - consideration to be given to jurisdictional-level approaches; and
 - additional guidance, (including the use of existing performance reporting metrics, and examples of good practice) that would be needed to support NPOs in applying the approach and users in understanding the information provided.
- 2.3 A focus group on narrative reporting was held in April 2022. A diverse group of participants discussed the Consultation Paper responses and the proposed approach, providing valuable feedback on both. This has been used to further refine the proposals and the accompanying implementation guidance. There was agreement amongst this group on the need to ensure financial statement analysis and performance reporting were integrated. However, there was some caution on the burden that this could impose on NPOs in addition to existing donor



reporting. The group identified additional frameworks that could potentially be useful for narrative reporting, including the OECD's DAC criteria and FATF Standards.

- 2.4 Finally, the TAG provided advice on the proposals at its May 2022 meeting. Similar feedback to that provided by the PAG and focus group was received, including a need to ensure that the proposals and language were kept relatively simple. They suggested a greater use of jurisdictional-level approaches and guidance. The TAG also noted that as part of the Exposure Draft, specific matters for comment would be needed on the minimum mandatory reporting requirements, assurance arrangements, and the potential for an extended transition period.
- 2.5 As a result of this feedback, the proposed approach to narrative reporting has been refined. It is now proposed that there is a minimum mandatory requirement for NPOs to:
- present information to enable users to understand what the performance objectives of the NPO are and what it has done during the reporting period in working towards those performance objectives; and
 - present commentary to discuss and analyse the NPO's financial statements.
- 2.6 Sitting alongside this mandatory requirement is a proposal that this information is presented in accordance with certain principles including:
- the performance information and financial statement commentary shall be for the same reporting NPO and reporting period as the financial statements;
 - in selecting and presenting the performance information and financial statement commentary the NPO shall apply the qualitative characteristics and pervasive constraints on information in Section 2 Concepts and Pervasive Principles;
 - the NPO shall also ensure that the performance information and financial statement commentary presented is fair and balanced; and
 - non-disclosure of aspects of performance information and financial statement commentary is permitted where an NPO engages in 'sensitive' activities. This would mean that where the activities of the NPO would be compromised by aspects of the narrative report, for example specific humanitarian aid programs, this can be omitted.
- 2.7 It is proposed that mandatory information for users that integrates the performance information and financial statement commentary requirements is broken into defined topics. The Guidance would also include recommended (but not mandatory) content for each of these topics. Additional detail on this recommended content will be provided in the core guidance in the Exposure Draft.



Topics	Recommended content of topic
An overview of the NPO	<p>Contextual information that enables users to understand:</p> <ul style="list-style-type: none">• who the NPO is - legal form, structure, governance arrangements;• what the NPO exists for – purpose, mission, vision; and• what the NPO does – the environment in which it operates, its main activities, significant relationships with other entities.
Performance information	<p>Information to enable users to understand:</p> <ul style="list-style-type: none">• what the performance objectives of the NPO are and what it intended to achieve during the reporting period; and• what it has done in working towards those performance objectives and what it has achieved during the reporting period. <p>In presenting this information, users will need to be provided with performance measures and descriptions that enable the NPO to demonstrate its performance for the reporting period.</p>
Information about the NPO's financial objectives and strategies and how these support the achievement of its performance objectives	<p>The NPO should discuss its financial objectives and strategies relating to its financial position, income and expenditure, net assets and cash flows. This should be done in a way that enables users of the financial statements:</p> <ul style="list-style-type: none">• to understand the NPO's financial objectives and strategies;• to identify the resources that must be managed by the NPO to achieve them; and• how these financial objectives and strategies support the achievement of the NPO's performance objectives.
An analysis of the NPO's financial statements including significant changes and trends and how these impact on the achievement of its performance objectives	<p>The NPO should include an analysis of significant changes and trends in its financial position, income and expenditure, net assets and cash flows and the impact these have on the achievement of its performance objectives. Judgement should be applied to ensure a focus on significant and important financial statement items, and the NPO should not simply reiterate the information presented in the financial statements.</p>
A description of the NPO's principal risks and uncertainties	<p>The NPO should discuss the principal risks and uncertainties that affect the achievement of its performance objectives and its financial position, income and expenditure, net assets and cash flows. This should include:</p> <ul style="list-style-type: none">• an explanation of how these risks and uncertainties relate to the performance objectives and financial objectives and strategies of the NPO;• an explanation of changes in those risks and uncertainties since the last reporting date; and• how the NPO manages risks and uncertainties.



- 2.8 Guidance will also be provided on presentation (including around cross-referencing to information in the financial statements and external to the general purpose financial report), comparative information, consistency of reporting, and the disclosure of judgements and reporting of other information.
- 2.9 The implementation guide will provide additional support to NPOs in complying with the requirements of the Section, including examples and links to international and jurisdictional-level guidance.

- Question 1: Does the PAG have any comments on the updated proposed approach to narrative reporting requirements?

3. Mandatory requirements

- 3.1 The Consultation Paper proposed that narrative reporting would be a mandatory requirement under INPAG and respondents were supportive of this approach, recognising that providing additional information beyond the financial statements was important in the NPO context.
- 3.2 While the PAG, TAG and attendees at the focus group and other outreach events have also been supportive of its inclusion, there have also been some concerns raised that requiring all NPOs to comply with the narrative reporting requirements could impact on the take up of INPAG.
- 3.3 Narrative reporting is an area that could bring significant benefit both to users of the NPOs general purpose financial reports and NPOs themselves, but it is the case that international guidance in this area is not mandatory and there are only a few jurisdictions that mandate NPOs to undertake this reporting.
- 3.4 As indicated, the proposed approach is for a mandatory minimum core of narrative reporting that complies with certain principles but which gives considerable freedom for individual NPOs to determine how they report performance information and financial statement commentary. While the topics are mandatory, the recommended content represents only one way that NPOs can comply with them to enable users to assess the performance of the NPO and be provided with context to the information included in the financial statements.



- Question 2: Does the PAG support a mandatory narrative reporting requirement for NPOs? If so does the PAG support the proposal for a mandatory requirement that requires NPOs to comply with certain principles and topics but which gives freedom for individual NPOs to determine how they report performance information and financial statement commentary?

4. Transition arrangements

- 4.1 In addition to the discussion as to whether and what aspects of narrative reporting should be mandatory, there is also a question as to whether there should be transition arrangements.
- 4.2 For some NPOs, narrative reporting may at first be difficult to implement, particularly if resources are being prioritised on the transition to accrual accounting and/or the introduction of a new set of financial reporting standards. There may also be questions regarding any audit and/or broader assurance requirements that jurisdictions determine may apply to narrative reporting.
- 4.3 In order to support NPOs in transitioning to and applying INPAG, one option is to permit a longer transition period for narrative reporting compared to the other Sections of INPAG. This will allow NPOs to focus on ensuring that they produce financial statements that are in compliance with INPAG, before then looking to more fully meet the needs of users by also meeting the narrative reporting requirements.

- Question 3: Should an extended transition period be permitted for narrative reporting to allow the focus first on producing INPAG compliant financial statements?

June 2022



Annex A – Summary of the proposals

Fair and balanced reporting				
Same NPO as financial statements and consistent reporting period				
Qualitative characteristics: Faithful representation, Relevance, Comparability, Verifiability, Timeliness, Understandability				
An overview of the NPO.	Performance information.	Financial objectives and strategies.	An analysis of the NPO's financial statements.	A description of the NPO's principal risks and uncertainties.
Contextual information, including legal form, structure, governance, purpose, mission, vision; and main activities, significant relationships.	Performance objectives and plans and what has been achieved. Measures and descriptions to demonstrate performance	How these support the achievement of its performance objectives	Significant changes and trends and how these impact on the achievement of its performance objectives	How these relate to the performance objectives and financial objectives and strategies. Significant changes and mitigations.
May exclude sensitive material				