

Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGED07-02 Narrative Reporting

28 June 2022 – Online

Narrative Reporting

Summary	This paper updates the TAG on proposals for developing narrative reporting guidance for NPOs, taking into consideration feedback from the previous meeting.
Purpose/Objective of the paper	To provide the TAG with an overview of the updated proposed approach to developing narrative reporting guidance for the INPAG and the latest Exposure Draft text, and to gain the TAG'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	For the TAG to provide advice on: <ul style="list-style-type: none">• The updated proposed approach to developing narrative reporting guidance and the Exposure Draft text;• The aspects of the proposed approach that should be mandatory for NPOs; and• The length of the transition period permitted for NPOs to apply the narrative reporting guidance.

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Narrative Reporting

1. Background

- 1.1 The TAG was provided with an overview of responses to the Consultation Paper and an initial proposed approach to developing narrative reporting guidance for INPAG at the May 2022 meeting.
- 1.2 As a result of feedback obtained from the TAG to this initial proposal the proposals have been further updated and refined and Exposure Draft text developed.
- 1.3 This paper provides the TAG with an overview of the updated proposed approach and related Exposure Draft text. Advice is sought from the TAG on these proposals, the aspects of the proposed approach that should be mandatory for NPOs, and the length of the transition period permitted for NPOs to apply the narrative reporting guidance compared to the rest of INPAG.

2. Updated proposed approach

- 2.1 The TAG 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 A range of feedback was provided to the proposed approach, including:
 - the need to ensure that the approach and language was adapted further to make it simpler and sector specific, particularly with respect to performance reporting;
 - consideration to be given to existing jurisdictional-level approaches; and
 - the need to consider which aspects would be mandatory and the potential for an extended transition period.
- 2.3 As a result of this feedback, the proposed approach to narrative reporting has been refined as summarised below.

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				

2.4 The updated approach was presented to the PAG at their latest meeting. A summary of the discussion and requests from the PAG is included in Annex A.

2.5 Under the latest narrative reporting proposals, there is a now 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 human rights 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 core guidance will include additional detail on recommended (but not mandatory) content for each of these topics. High level recommended content is shown in the table below.

Topics	High level 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 is 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 NPOs performance objectives.

<p>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>	<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>
<p>A description of the NPO's principal risks and uncertainties</p>	<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 is also 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 An implementation guide is intended to provide additional support to NPOs in complying with the requirements of this Section of the Guidance. In addition to the links to international and jurisdictional-level guidance currently included, this will include examples that will be developed over the coming months.

2.10 A section has been drafted for narrative reporting that is additional to the content of IFRS for SMEs. For the core guidance text, in order to assist TAG members in understanding where text from other international financial reporting or jurisdictional-level frameworks may have been incorporated into INPAG, the following approach is being used.

Text colour	Explanation
Black	Original IFRS for SMEs Standard text
Red strikethrough	Deletion of text within original IFRS for SMEs Standard text
Green	Change of terminology only
Purple	Text originated from IFRS Standards
Blue	Original INPAG text

<u>Blue underlined</u>	Text originated from IPSAS Standards
Orange	Text originated from jurisdictional-level frameworks

2.11 Annex B contains a log of the advice and requests previously provided by the TAG.

Question 1: Does the TAG have any comments on the proposed approach to narrative reporting requirements and the Exposure Draft text, including the exclusion of sensitive information and how it is characterised?

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. This was in recognition 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 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. However, international guidance in this area is not mandatory and there are only a few jurisdictions that mandate NPOs to undertake this type of reporting.
- 3.4 The proposed approach is for a mandatory minimum core of narrative reporting that complies with certain principles. In taking this approach, it 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. The focus is 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 TAG support a mandatory narrative reporting requirement for NPOs? If so does the TAG 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 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 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 enable those NPOs that may find implementing narrative reporting difficult to focus first on producing INPAG compliant financial statements?

5. Next Steps

- 5.1 Based on the feedback obtained from the PAG at its previous meeting and the TAG at this meeting, the proposals will be revised and tested at a focus group that is being held in mid-July. The INPAG Exposure Draft text for Section 36 Narrative Reporting will be finalised after this input.

June 2022

Annex A – Summary of PAG discussion and requests

The PAG were on the whole supportive of the inclusion of mandatory narrative reporting requirements, with a view expressed that as well as meeting the needs of users and supporting public accountability such reporting helps drive improvements in overall performance.

The more integrated approach was seen as an improvement on the previous proposals.

Specific comments on the proposals for reporting of performance information and financial statement analysis included:

- NPOs would need to ensure that performance objectives and indicators were driven from its mission;
- Guidance will be needed for NPOs who have long-term performance objectives that don't easily translate to a single reporting period;
- Non-disclosure for sensitive activities could be misused if defined too broadly;
- NPOs should not have to note if they have not disclosed information on sensitive activities as this could also cause issues;
- Will there need to be a disclosure if there is uncertainty around whether the NPO is a going concern?;
- Has thought been given to whether specific financial metrics will be required as part of financial statement analysis?;

There was also a range of views expressed as to additional reporting requirements that could be included beyond performance information and financial statement analysis. These included the potential to include:

- Exposure to climate risks;
- Social and environmental reporting;
- Gender balance;
- Diversity; and
- Safeguarding;

Opinion on an extended transition period was divided. Some PAG members noted that experience in their jurisdictions indicated that an extended transition might be necessary given that resources would be being dedicated to adapting to the new financial reporting requirements. Other PAG members, however, pointed out that NPOs would have a number of years to prepare for the introduction of INPAG and that the proposals were not onerous. A potential option of having two 'tiers' with those NPOs that are able to report doing so on initial INPAG adoption and other NPOs being permitted longer to comply with the narrative reporting requirement was also raised.

Annex B

Log of advice and requests

Date	Requests	Status	Notes
04/05/2022	Include a specific matter for comment on the minimum mandatory requirement to understand which areas may create a challenge in practice, highlighting specific issues. Also seek feedback on the content of the minimum mandatory requirement.	In progress	Agreed. Will have specific matters for comment
04/05/2022	The assurance aspects of the mandatory reporting element to be included as a specific matter for comment	In progress	To further discuss the extent to which we want to get into assurance aspects as part of the guidance.
04/05/2022	Explain the approach to the minimum level of information in the basis for conclusions.	In progress	Agreed, this will be in Basis for Conclusions
04/05/2022	Utilise guidance that has been developed in other jurisdictions to inform the development of the INPAG guidance. Consider what is in the guidance itself and links to other guidance.	In progress	Agreed, have looked at other jurisdictional approaches and will link to them as part of implementation guidance.
05/10/2021	Develop a basis for conclusions to underline the thinking in the approach to narrative reporting	In progress	Included in draft

Date	Advice	Notes (if any)
04/05/2022	Having mandatory requirements might affect the level of take up. To reduce any barriers, the mandatory element should be kept to a minimum	Mandatory element is at a minimum in draft. SMCs on mandatory requirements
04/05/2022	It may be confusing to have one report comprising two sections (financial statement and performance) and may be better to be two separate reports. This may be relevant in considering assurance arrangements.	The performance and financial statement commentary are now integrated.
04/05/2022	The proposal for the financial statement analysis look fine as they are broad. Simplification and simpler language is needed to explain what is required noting that IASB and IPSASB had different start points.	Agreed. Have simplified
04/05/2022	Use the terms financial objectives and financial strategies to differentiate to broader organisational objectives and strategies.	Done
04/05/2022	The proposal for the performance content and language looks appropriate noting that deciding which objectives to report and knowing which indicators/performance measures to select can be challenging for NPOs. Additional guidance will be needed. Whilst NPOs can find this difficult it is helping positive outcomes.	Additional implementation guidance will be drafted
04/05/2022	Exemptions may be needed where transparency could be detrimental to the operations and mission of an NPO	Agreed. Drafted text on this

05/10/2021	Consider the work being carried out internationally on narrative reporting to ensure that the project is not reinventing the wheel. A practice statement could be helpful.	Have examined international approaches. Whether a practice statement or mandatory requirement part of SMCs
05/10/2021	Consider 'keeping it simple' or 'world leading' and the connection to what might be audited to provide assurance on the information for public benefit. Be clear about the scope of narrative reporting. Establishing focus groups to discuss might be useful.	Have looked to keep simple while meeting minimum requirements. Focus group has been utilised to discuss and will take updated proposals to them.
05/10/2021	Consider whether narrative reporting could be optional to ease transition to new Guidance, or whether it should be in phase 2.	Considering longer transition. Will be an SMC