



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED08-12
29-30 September 2022 – Hybrid

Analysis of the Consultation Responses – NPOs acting on behalf of other entities

Summary	The paper analyses the consultation responses on NPOs acting on behalf of other entities and proposes the way forward for providing guidance on this issue in INPAG.
Purpose/Objective of the paper	The paper identifies the key issues highlighted through the consultation responses. It seeks advice on the proposed approach to developing guidance for INPAG based on the proposals in the Consultation Paper and the responses received.
Other supporting items	N/A
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Actions for this meeting	Advise on the way forward for drafting the Exposure Draft and associated Guidance.

Technical Advisory Group

NPOs acting on behalf of other entities

1. Introduction

- 1.1 The report provides:
- an overview of the consultation paper
 - a summary of the consultation responses
 - a proposed approach to drafting the Exposure Draft

2. Consultation Paper

- 2.1 The Consultation Paper noted that distinguishing between where an NPO acts as an agent for other entities or is acting in its own right is important to understand the accountability of an NPO, to provide transparency over its operating income and expenditure and to understand an NPO's operating model. It can be challenging, however, to identify where an NPO is the principal.
- 2.2 Potential issues noted in the consultation paper included:
- the extent to which an NPO has decision-making accountability over grants or is simply administering them for others, and whether a funder deems an NPO distributing funds may be accountable;
 - an absence of formal agreements setting out arrangements between parties, particularly where multiple tiers of entities, partnerships or consortia exist; and
 - difficulties arising from the use of sub-contractors to provide services or distribute funds.
- 2.3 From a financial reporting perspective, the two main challenges highlighted in the consultation paper relate to recognition and disclosure.
- 2.4 For recognition it was noted that if an NPO is acting as an agent, then the funds or assets being held should not be recognised by an NPO (and could be held in some form of holding account). Where an NPO is acting as a principal, it was noted that expenditure should not be netted off from any of the contributions received, when presented as income and expenditure, or within assets or liabilities, and that funds granted or donated should be presented gross.

- 2.5 For disclosure, the consultation paper noted that an NPO would need to provide transparency over amounts passing through it or assets in its custody and that donors and grant providers would likely be interested in the security and fiduciary responsibilities of the NPO. It was also noted that financial reporting may need to cover the full details of programmes that include both elements of agent and principal to meet users' needs.
- 2.6 The Consultation Paper offered three main alternatives for financial reporting guidance:
- **Alternative 1 (IFRS):** Based on IFRS Accounting Standards and using the indicators of control identified in IFRS 10 *Consolidated Financial Statements* and the approach in IFRS 15 *Revenue from Contracts with Customers*.
 - **Alternative 2 (IFRS for SMEs):** Based on Section 23 *Revenue* of the *IFRS for SMEs Accounting Standard* with a risks and rewards approach adopted.
 - **Alternative 3 (IPSAS):** Based on IPSAS 9 *Revenue from Exchange Transactions*, IPSAS 23 *Revenue from Non-exchange Transactions*, and IPSAS 35 *Consolidated Financial Statements*, with a risks and rewards approach adopted.
- 2.7 It was noted in discussion of these alternatives in the Consultation Paper that it was possible that given the current work programmes of the IPSASB and IFRS Foundation, both the *IFRS for SMEs Accounting Standard* and IPSAS would move to follow a similar approach to control as IFRS Accounting Standards prior to INPAG Phase 1 being finalised. A summary of the responses in Annex A.

3. SMC 2.a Description of the Issue – NPOs acting on behalf of other entities

- 3.1 For each of the issues in the Consultation Paper stakeholders were invited to comment on whether the paper had appropriately captured the issue. For SMC 2.a, 88% of respondents agreed with the description of the issue.
- 3.2 Of those disagreeing, a Chartered Accountancy Institute was concerned that the discussion of this topic was perhaps conflated with broader issues related to reporting entity boundaries and consolidation. For them the nature of the sector, with NPOs effectively being agents of a section or all of society, would make it practically difficult to draw a line between where an NPO was acting as an agent and as a principal. The Secretariat agrees that the issue of the reporting entity, consolidation, and principal agent issues are interlinked, and that there are a number of practical challenges in determining whether an NPO is an agent or a principal as highlighted in the Consultation Paper.

3.3 A donor also felt that the description of the issue did not adequately consider donor intent, or specific funding arrangements where legal control may vest with a board of an umbrella fund but in practice would remain with the donor. The alternative treatments all call for additional guidance and NPO-specific examples.

4. SMC2.b Are the List of Alternative Treatments Exhaustive?

4.1 For each Issue stakeholders were asked to comment on whether the alternative treatments for that issue were exhaustive. All respondents agreed that the list of alternatives was exhaustive.

5. SMC 2.c Articulation of the Advantages and Disadvantages of the Alternatives

5.1 Respondents were asked if they agreed with the advantages and disadvantages articulated for each alternative accounting treatment.

5.2 Only one respondent, an accountancy firm, disagreed. They noted that alternative 1 included as a disadvantage that it may result in additional costs to make assessments which outweigh the benefits. For them if comprehensive guidance was developed and examples provided to illustrate NPO-specific arrangements to assist preparers this would not be the case. INPAG will provide comprehensive guidance and examples, but the Secretariat would note that, as with all financial reporting, materiality considerations will mean that there are occasions where additional cost to preparers outweigh the benefits of providing this information to users.

6. SMC 2.d Preferred Alternative – Alternative 1 (IFRS 10), Alternative 2 (IFRS for SMEs), Alternative 3 (IPSAS)

6.1 Respondents were split almost evenly between favouring alternative 1 (IFRS) (7 in favour, 47%) and alternative 2 (IFRS for SMEs) (8 in favour, 53%). There were no responses in favour of alternative 3.

Alternative 1: IFRS

6.2 Respondents preferring alternative 1 highlighted both conceptual and practical benefits of the approach. From a conceptual perspective there was support for what some respondents saw as a more sophisticated controls-based approach. For these respondents, assessing whether an entity controls a resource, in that it has discretion over the use of the resource and is not just working under the instruction and direction of the principal, would lead to the most relevant accounting treatment. A respondent also noted that from experience they

considered it necessary to demonstrate the level of control and responsibility to determine accountability for funds and resources, and alternative 1 would provide this.

- 6.3 From a practical perspective, respondents favouring alternative 1 also noted that given that the risks and rewards approach was being replaced in the *IFRS for SMEs* Accounting Standard and IPSAS, adopting a controls approach now would reduce the burden of changing approach in the future. One respondent did note, however, that while they supported an approach based on control, reference to risk and reward could still be relevant in some contractual arrangements and should be included in additional guidance.

Alternative 2: IFRS for SMEs

- 6.4 Respondents preferring alternative 2 focused primarily on its consistency with the guidance development model and the simplicity and ease of implementation of this approach. For these respondents as the *IFRS for SMEs* Accounting Standard provides a financial reporting solution that was appropriate in the NPO context, there was no requirement to examine IFRS for a solution. It was also felt that a risk and rewards assessment would be easier to apply for NPOs with limited resources, and that it was likely to lead to similar conclusions anyway.
- 6.5 A number of these respondents noted that additional guidance on control could be provided to supplement the risks and rewards approach. This would be used for more complex cases and issues where the risks and rewards assessment did not provide a clear answer.

7. SMC 2.e Additional disclosures – Challenges with proposed disclosures and any additional disclosures that may be more relevant

- 7.1 Finally, respondents were asked to comment on proposed additional disclosures and any additional disclosures that they thought would be more relevant. The additional disclosures for material agency relationships suggested in the Consultation Paper for all alternatives were:
- a description of the entities or individuals involved in the relationship;
 - a reconciliation from opening to closing balances of material agency transactions; and
 - any major variances.
- 7.2 In general respondents were supportive of the need for additional disclosures, with agreement that it was useful for stakeholders to understand agency relationships and areas such as how an NPO ensures safe custody and segregation of assets from its own.

- 7.3 There were comments regarding the potential reporting burden on smaller NPOs of additional disclosures, although also views expressed that such NPOs were less likely to be acting as agents in complex arrangements. One respondent also noted that disclosures could cause difficulties where sensitive activities were being funded through agency principal relationships.

Question 1: Do TAG members have any comments on the analysis of the responses to the Consultation Paper?

8. Approach to Drafting the Exposure Draft for NPOs acting on behalf of other entities

- 8.1 The Secretariat is developing drafting for the Exposure Draft, based on the proposals in the consultation paper and the feedback received from respondents.
- 8.2 Guidance on NPOs acting on behalf of other entities will not be included as a standalone Section in INPAG. Rather it will be integrated into those Sections where guidance on agent principal relationships is required, which is expected to primarily be those related to revenue and expenses. The Exposure Draft will be drafted so that the overall approach and how it will be included in each individual Section is clear.

Control-based approach

- 8.3 The Secretariat is of the view that given the changes to the *IFRS for SMEs* Accounting Standard which have introduced a control-based approach, it is appropriate to move forward with an approach based on control rather than risks and rewards.
- 8.4 This control-based approach will focus on the extent to which an NPO has control over an economic resource, which will require it to have the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it.
- 8.5 To be a principal will therefore require the NPO to obtain economic benefits or service potential from an economic resource in order to further its own purpose and achieve its own objectives, and to be able to do so without requiring authorisation from another entity.
- 8.6 An NPO will be acting as an agent when it does not control the economic resources in an arrangement. This will be the case when the NPO is acting for another entity's purpose and objectives, acts in accordance with the instructions



or directions of the other entity, and has no discretion about the use to which the resources received are put.

- 8.7 These basic principles will be developed to provide detailed guidance on identifying when an NPO is acting as a principal or agent and the subsequent recognition, measurement, disclosure and presentation. Guidance will also NPO-specific issues such as the use of consortia or similar arrangements.

Question 2: Do TAG support the development of guidance which will not form a standalone Section of INPAG but will instead be integrated into relevant Sections?

Question 3: Do TAG support the development of a control-based approach to guidance for NPOs acting on behalf of other entities?

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Appendix: Detailed Responses to Specific Matters for Comment

Question	Response	Number	%	% Responded
SMC 2(a) Do you agree with the description of issue 2: NPOs acting on behalf of other entities? If not, why not?	Agree	14	20%	88%
	Disagree	2	3%	12%
	Neither Agree nor Disagree	0	0%	0%
	<i>Non Response</i>	53	77%	
	TOTAL		69	100%
SMC 2(b) Do you agree that the list of alternative treatments that should be considered for issue 2 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.	Agree	15	22%	100%
	Disagree	0	0%	0%
	Neither Agree nor Disagree	0	0%	0%
	<i>Non Response</i>	54	78%	
	TOTAL		69	100%
SMC 2(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 2? If you do not agree, please set out the changes you propose, and why these should be made.	Agree	13	19%	93%
	Disagree	1	1%	7%
	Neither Agree nor Disagree	0	0%	0%
	<i>Non Response</i>	55	80%	
	TOTAL		69	100%
SMC 2(d) Please identify the alternative treatment that you favour for issue 2, and the reasons for your view.	Alternative 1	7	10%	47%
	Alternative 2	8	12%	53%
	Alternative 3	0	0%	0%
	<i>Non Response</i>	54	78%	
	TOTAL		69	100%
SMC 2(e) Additional disclosures are proposed under all alternatives for issue 2. Outline any challenges you would anticipate with the proposed disclosures? Are there additional disclosures that might be more relevant?	13 responses were received to this SMC.			