

Donor Reference Group

Donors as users of financial statements:
DRG Meeting Report, October 2021

Background

In 2021, the [IFR4NPO](#) Project made tremendous progress on engaging stakeholders from around the globe on issues of financial reporting by non-profits. Among these stakeholders, the donor community continues to play a crucial role in informing the [Guidance development](#) process. In October 2021, the [Donor Reference Group \(DRG\)](#) met to discuss the use of general-purpose financial reports (GPFR), both now and in the future. In addition to poll questions posed to members, open-ended questions were used to generate conversation among donor organisations.

This report will first unpack how donors utilise GPFR. Next, it addresses challenges faced by donors in using GPFR and the strategies they use to overcome these issues. Finally, the report clarifies the types of information that, if included in the financial reports, could make them more useful for donors.

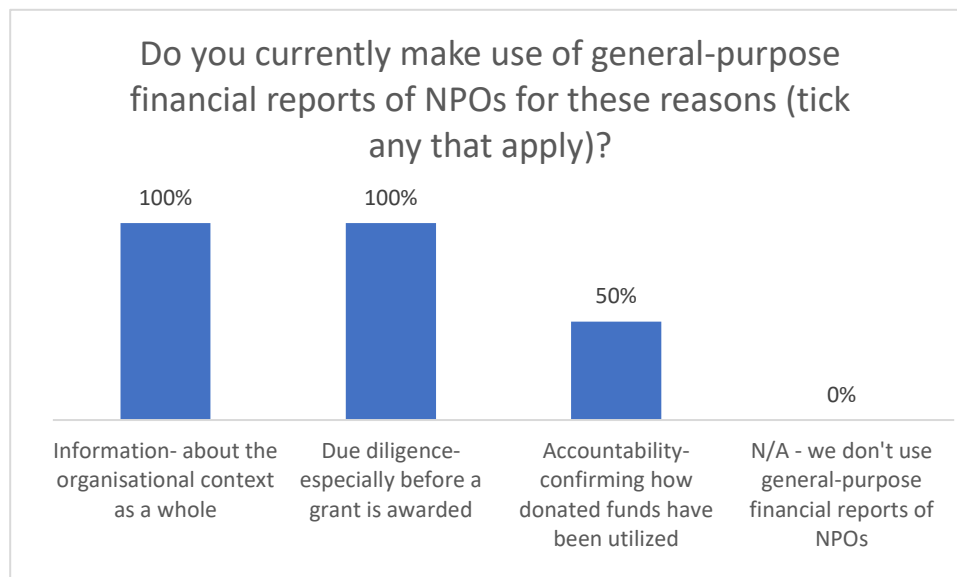
Utility of General-Purpose Financial Reports

Donors utilise GPFR for a variety of reasons. Most commonly, donors gain information about the organisational context as a whole and to conduct due diligence, especially before awarding a grant. 100% of DRG members in attendance indicated they use GPFR for these reasons. Fewer donor organisations (50% of DRG members) also use these reports to ensure accountability by confirming how grantees have utilised donated funds.

While GPFR are useful for gaining basic information, the DRG noted their inability to capture longer term trends in organisational financial health and operations.

Additionally, the DRG expressed that GPFR do not capture project-specific information and that additional forms of reporting may be necessary.

Although members of the DRG currently use GPFR in differing ways, the group expressed interest in the potential of these reports to become a main tool for reporting. One US-based member discussed the potential for GPFR to disclose whether non-US organisations qualify as US-equivalent non-profit organisations, (by means of an equivalency determination), and could therefore be legally eligible for unrestricted funding.



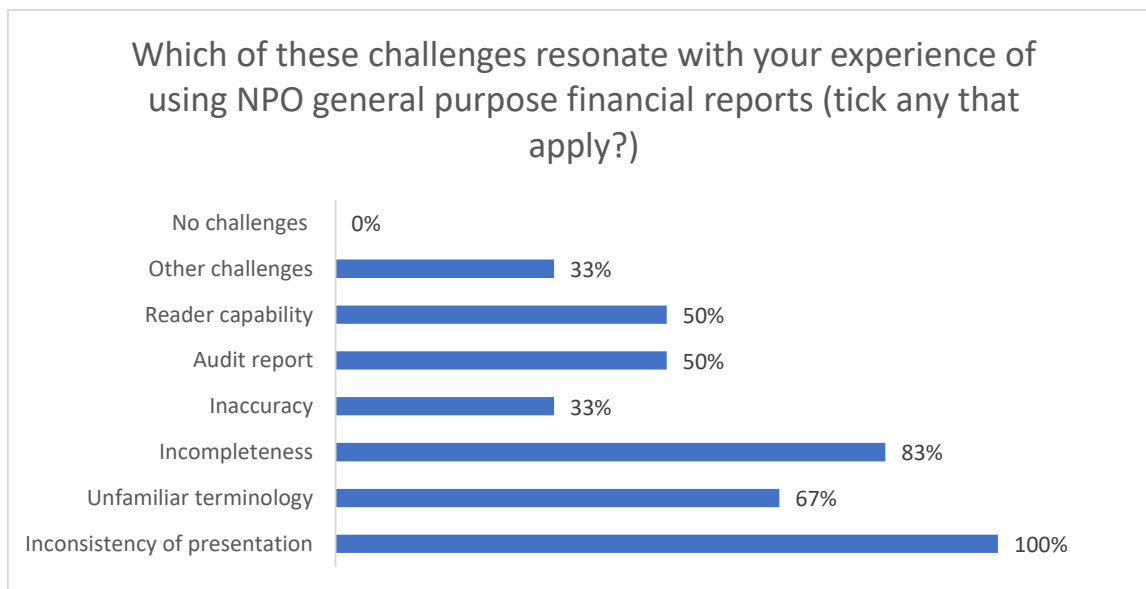
Challenges for Donors

Much as DRG members indicated that GPFR are useful for donor organisations, there are several challenges associated with the use of the reports. DRG members confirmed the challenges noted by Humentum, based on their experience working with the donor community. Such challenges include:

1. **Inconsistency:** GPFR from NPOs in different countries, and even within the same country might not be prepared in a consistent way, making it hard to find the information sought.



2. **Unfamiliar terminology:** GPFR from NPOs may contain terminology that is unfamiliar to readers, or has a different meaning to what they may expect or understand.
3. **Incompleteness:** information that would be useful is not always available, either in the financial statements, notes or accompanying narrative reports.
4. **Inaccuracy:** the financial statements may contain errors, or internal inconsistencies.
5. **Audit report:** the audit opinion, if present, may not be clear about which framework has been referenced to inform their opinion about whether the financial statements present a true and fair view.
6. **Reader capability:** the staff attempting to read the financial statements may have a programme focus or lack expertise in reading financial reports. This exacerbates the above challenges, making it harder to train non-experts in the basics of reading financial statements.



The DRG also articulated concerns regarding full cost recovery. Members discussed the risk of NPOs recovering more operational costs than they actually utilise, as well as NPOs receiving payments from more than one donor for the same expenditure. Members also highlighted issues associated with the presentation of financial statements themselves; they stressed the need for a common format that serves both donors and other stakeholders.

One member elaborated on the issue of incompleteness, referencing the complex interplay between the legal and tax regimes that govern the NPO sector. Details about an entity's legal registration or tax status may be missing. Furthermore, GPFR typically do not provide enough information about programmatic results. Members articulated a need to connect the dots between financial and programmatic results. One specific concern that members expressed about narrative reporting was requirements to integrate broader environmental reporting into financial and programmatic reports. These comments indicate a need to incorporate guidance on narrative reporting into IFR4NPO's Guidance on financial reporting.

Overcoming Challenges: Donor Strategies

The DRG detailed several strategies they employ to overcome some of these challenges. These strategies include:

1. Checklists for readers (often grant or compliance officers) to fill in, especially during grant assessment
2. Training for staff in how to access information in the GPFR
3. Requiring NPOs to use certain accredited firms for the audit of their GPFR
4. Prescribing use of a specific framework (eg US GAAP) for preparation of an NPO's GPFR



In addition, one member indicated they will use GPFR if grantees also share information related to the income and expenses related to the funding received from the donor organisation. Others indicated a need for GPFR to be audited in order to be useful for the donor organisation. Another organization utilises general-purpose reports in concert with special-purpose reports that relate specifically to the project.

Additionally, while this question referenced training of donor organisations' own staff, one member pointed out their organisation's efforts to train grantee organizations in complying with their regulations. However, this member emphasized the need for the sector to move away from donor-specific financial training, and move towards strengthening capacity to comply with an international standard.

Information Needs of Donors

The Consultation paper proposed that readers of NPO general purpose financial reports are interested in finding answers to the following four questions:

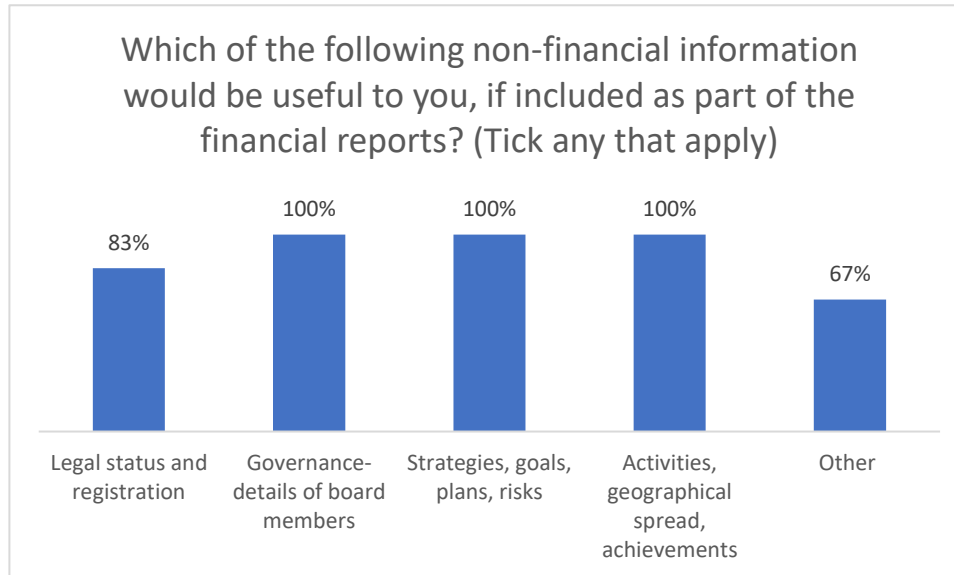
1. Is the NPO achieving its objectives?
2. Is the NPO using resources in an economic, efficient and effective way?
3. Is the NPO complying with restrictions and regulations?
4. Does that NPO have longer-term financial health?

The DRG affirmed that these are key aspects that they would hope to find in GPFR. In addition to this information, members expressed an interest in understanding organisational sustainability, information on leadership and staff turnover, strategies for communication and fundraising, and currency. One member expanded upon the issue of leadership and staffing and indicated that information relating to diversity, equity, and inclusion efforts would be valuable.

Another member noted that the issue of compliance with restrictions and regulations could be sensitive for NPOs that are challenging their governments on issues such as human rights.

In addition to these top-level information needs, IFR4NPO's analysis of organizational checklists revealed an interest in the following additional information:

1. Legal status and registration
2. Date and periods of financial reports and audits
3. Information about the auditor and their opinion
4. Governance – details of board members
5. Income – as an indicator of size (eg relative to grant application), and information about other funding sources, donor dependency
6. Expenditure – sometimes looking out for amounts spent on salaries, fundraising or overheads
7. Financial health, for example liquidity and general reserves relative to size
8. Strategies, goals, plans, risks
9. Activities, geographical spread achievements
10. Information about a particular grant made – such as receipts, payments and fund balance



When asked specifically about the value of information pertaining to legal status and registration, governance, strategies and goals, and activities and achievements, DRG members indicated that this additional information would be useful if included in financial reports. Additionally, members emphasised the need for information regarding currency and exchange rates in financial reporting.

Conclusion: Donor Priorities for Financial Reporting

The DRG's ongoing participation in developing international guidance is crucial to ensuring that the guidance is relevant to, appropriate for, and acceptable to the donor community. There is considerable agreement about the types of information that donors would like to see in GPFR and the way it is used. This report revealed a common desire for consistent, complete GPFR that provide information beyond simple financial metrics.

As the IFR4NPO project continues to develop the financial reporting guidance, it will be essential to consider the needs of donors, alongside other stakeholders such as regulators, NPOs themselves, wider society and auditors. The Guidance will

determine consistent formatting for financial reports, set expectations for narrative reporting, and ensure that the information provided in GPFR is proportionate and useful.