



Executive summary

The publication of this Consultation Paper gives non-profit organisations (NPOs) and their stakeholders the opportunity, for the first time, to contribute to the development of international financial reporting for the sector. Feedback to this Consultation Paper will shape the future of financial reporting in this important but diverse sector and can be provided in three ways [link here](#).

The preparation of financial statements is crucial for accountability and decision-making and for trust and confidence in NPOs. However, there are no common international accounting standards for NPOs, unlike in the private and public sectors. Only a few jurisdictions have developed guidance that addresses the unique characteristics of NPOs and the types of transactions they undertake.

Donors have developed financial reporting requirements to meet their individual needs, in part due to the lack of a single accepted international accounting framework, but this has resulted in variety of financial reporting requirements. Together with the different laws and regulations that apply in various countries and regions, these different financial reporting requirements can create a heavy burden for NPOs.

The International Financial Reporting for Non-Profit Organisations (IFR4NPO) project aims to respond to these issues by strengthening NPO governance and financial management through the development of internationally applicable financial reporting Guidance for non-profit organisations ('the Guidance'). This will benefit a broad range of NPOs and their stakeholders by making NPO financial reports more transparent, more credible and easier to compare.

The Guidance will be developed over a five-year time frame to meet the following three objectives.

Objective 1: To improve the quality, transparency and credibility of NPO financial reports.

Objective 2: To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

Objective 3: To address specific NPO issues, which will promote the comparability of NPO financial reports.

This Consultation Paper is the first output from the Guidance development process. It is intended to raise awareness and understanding of the project and the issues it will address, as well as to provide a focus and vehicle for stakeholder input. It has been developed in two parts.

Part 1: General NPO financial reporting issues

Part 1 of the Consultation Paper is aimed at a broad audience. It discusses the NPO financial reporting landscape and considers this in the context of the project objectives.

The Consultation Paper proposes a broad characteristics approach to describing the types of organisations most likely to fall within the scope of this Guidance. They are organisations that:

- have the primary objective of delivering services for public benefit, and/or
- direct any surpluses to furthering their primary service delivery objective, and/or
- derive income from voluntary funding, and/or
- hold and use assets for social purposes.

NPO stakeholders need financial reporting information that shows whether an NPO is achieving its objectives in a way that maximises economy, efficiency and effectiveness in the use of resources, while complying with restrictions and regulations, in the context of its longer-term financial health.

General purpose financial reports prepared on an accrual basis that reflect the common needs of a wide range of stakeholders will meet the project objectives. Accrual-based financial information provides a comprehensive view of an entity's financial position and performance. It improves the information that can be used to hold management to account and make funding and other decisions. Narrative, non-financial information provides additional information needed for accountability and decision-making purposes such as an understanding of an entity's objectives, strategy, risks, and performance.

It is proposed that the Guidance draws on existing international financial reporting frameworks to make use of the due process under which they have been developed and enable timely project delivery. There are currently three international reporting frameworks: International Financial Reporting Standards (IFRS® Standards), the IFRS for SMEs® Standard, and International Public Sector Accounting Standards (IPSAS®). The three international frameworks have important similarities but also differences. When assessed against suitability criteria, they each displayed different potential benefits and challenges as possible bases for the Guidance.

The Consultation Paper evaluates the alternatives and proposes the most credible model for developing the Guidance. This model proposes the *IFRS for SMEs Standard* as its foundational framework and draws on full IFRS Standards, IPSAS, and jurisdictional-level standards, where these better meet the needs of NPOs. This proposal performs better overall against suitability criteria than any one individual framework, and can be delivered within the five-year project timeframe.



Part 2: NPO-specific financial reporting issues

Part 2 of this Consultation Paper considers NPO-specific financial reporting issues. It is aimed at those involved in the preparation and audit of NPO financial statements, as well as those who make extensive use of NPO financial reports. It sets out how key NPO-specific issues have been identified to date, provides a description of the nature of each issue and describes the criteria for prioritising the issues to be considered.

Prioritised issues are in the areas of:

- reporting entity
- accounting for incoming resources
- accounting for outgoing resources
- accounting for financial and non-financial assets, and
- presentation, scope and content of financial reports.

Additional analysis is provided for the NPO-specific issues currently prioritised in each area. A description of each issue is provided, why it creates financial reporting issues and how it is addressed in international and/or a selection of national standards and guidance. Alternative approaches that could be pursued to address each issue are also included to generate feedback.

Comments can be provided on any or all the issues raised in both parts 1 and 2 of the Consultation Paper via the three response approaches described [link here](#).

