



# Introduction

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# 1. NPO financial reporting – current position

- 1.1 Currently, there are no common international accounting standards for non-profit organisations (NPOs) that are available to be used in every country around the world. A few countries have accounting standards or guidance developed at a national level that address the unique characteristics of NPOs and the types of transactions they undertake. Internationally, when NPO financial reports are prepared on an accrual basis, they are often prepared using accounting standards developed for the private sector, public sector or a mixture of both. Reporting on a cash basis or a modified cash basis is also common among NPOs.
- 1.2 In many countries, NPOs have no guidance or frameworks to support the preparation of financial statements, which are crucial for transparency, accountability and decision making. Funding organisations have filled this void by developing their own reporting requirements for NPOs, and while all have their merits, the variety of different requirements can create a heavy burden on the very organisations they want to support.
- 1.3 Private and public sector entities and their stakeholders have benefited greatly from the development and use of international standards since the 1970s. A 2014<sup>1</sup> international survey, with over 600 responses from 179 countries, found 72% of respondents agreed or strongly agreed that an international accounting standard or guidance specifically for NPOs would be useful.
- 1.4 The COVID-19 pandemic has reinforced the need for change. It has further exposed how the lack of common accounting standards is a barrier to mobilising funding from domestic and international sources for NPOs that have been in the front lines of the response. As the importance and scale of the role played by NPOs in addressing this pandemic and future crises grows, there is increasing urgency to develop common international standards.
- 1.5 The development of NPO guidance would improve the transparency, consistency, comparability, credibility and reliability of NPO financial statements. It would support an increase in trust and confidence in NPO financial statements, and has the potential to reduce compliance costs, which will allow for the release of funds for front-line activities.
- 1.6 The International Financial Reporting for Non-Profit Organisations (IFR4NPO) project is intended to respond to the issues summarised above by developing internationally applicable financial reporting guidance for non-profit organisations ('the Guidance'). The project, which is being funded by donations and grants, is being delivered jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum, both themselves NPOs.<sup>2</sup>

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<sup>1</sup> *International financial reporting for the not-for-profit sector (2014)* – A study commissioned by Consultative Committee of Accountancy Bodies in the UK and Ireland.

<sup>2</sup> See Supplementary Information – Additional project information for further information.

### 2. Strengthening NPO governance and financial management

- 2.1** The credibility of NPOs to stakeholders and particularly those who contribute funds is dependent on creating and maintaining trust through making the best possible use of finite resources and making a positive impact for those intended to be helped. This is critical to retaining support and demands strong governance and financial management, which is not uniformly present across NPOs.
- 2.2** Other projects are aiming to strengthen aspects of NPO governance and financial management. These include the 'Good Financial Grant Practice' Standard (GFGP)<sup>3</sup> which aims to standardise, simplify and strengthen the financial governance of grant funding, and Money Where it Counts (MWiC),<sup>4</sup> which aims to standardise information provided to large donors. These initiatives aim to benefit both grant providers and the NPOs receiving them.
- 2.3** These and other similar initiatives are important, but they do not address all the individual problems with NPO governance and financial management. The IFR4NPO Project aims to ensure that its financial reporting outputs build on and complement these initiatives, positively contributing to outcomes that aim to strengthen NPO governance and financial management.
- 2.4** These outputs are intended to play a key role in strengthening the accountability of NPOs around the world. The aim is to address the most important and significant of the broad range of financial reporting issues facing NPOs globally. A single set of guidance will set a clear, professional accounting benchmark for what good financial reporting looks like in the sector.
- 2.5** The Guidance is also intended to give NPOs the means to demonstrate their financial capacity, provide useful information for decision makers and support fundraising. The standardisation possible through the Guidance should also reduce the costs for NPOs in the management of grants and other donations. Similarly, the project aims to reduce costs for funders (eg due diligence) and enable funders to better assess the financial health of potential partners.
- 2.6** The environment for the effective regulation of NPOs, both nationally and internationally, will be improved by more consistent reporting that provides a basis for comparison between organisations and jurisdictions. This will enhance the credibility of NPO financial reporting and support an increase in trust and confidence across the sector. It will also provide the starting point for a more coordinated approach that limits emerging differences among jurisdictions. These outcomes will together lead to better managed, credible, more efficient and accountable NPOs.

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<sup>3</sup> See [www.globalgrantcommunity.com](http://www.globalgrantcommunity.com)

<sup>4</sup> The full MWiC protocol can be accessed at: <https://files.humentum.org/fl/T66AWs9Yf5#folder-link/>

### 3. Guidance objectives

**3.1** To strengthen the governance and financial management of NPOs, the Guidance will be developed over a five-year timeframe 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.

**3.2** Accrual accounting is the accepted basis of international accounting standards. Developing accrual-based guidance will be critical to establishing internationally accepted guidance that meets the broader needs of NPO financial report users. The challenges involved are not underestimated, given the current international prevalence of cash-based or modified cash reporting. Part 1: Chapter 3 explores this area in more detail.

**3.3** The Guidance will assist all NPOs in preparing financial reports that meet the general financial information needs of a broad range of stakeholders. It is not intended to include tailored or special purpose reports to address the specific information needs of donors with respect to specific grants.

**3.4** All NPOs are expected to benefit from the Guidance: from small membership organisations to large international relief organisations. However, the benefits of the Guidance to individual NPOs will vary because of the diversity of organisations within the sector, the financial reporting environments they operate within, as well as the extent to which there are current jurisdictional-level NPO-specific requirements. Part 1: Chapter 5 provides further information.

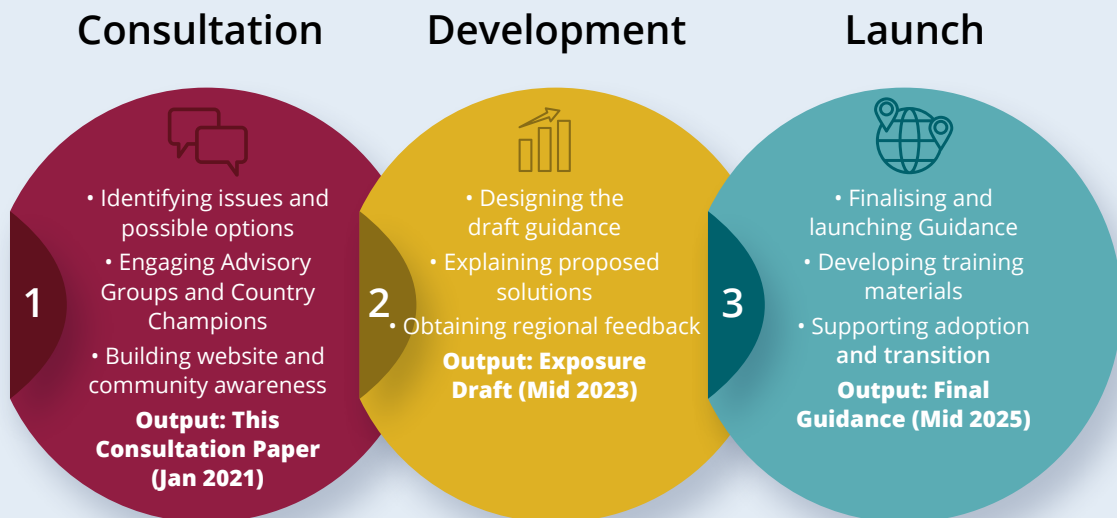
**3.5** As with all international financial reporting standards, adoption of the Guidance in full or in part will be for each jurisdiction to determine. The Guidance will therefore be non-mandatory. It will be developed using robust processes to maximise the potential for it to be adopted by any jurisdiction.

**3.6** The aim is that funding organisations increasingly use the Guidance in their compliance and due diligence processes and request that grantee financial reports are prepared on a basis consistent with the Guidance.

### 4. The Consultation Paper

4.1 This Consultation Paper is the first step in developing internationally applicable financial reporting guidance for NPOs. The Consultation Paper provides the first opportunity for those interested in or affected by NPO financial reporting to become acquainted with what the guidance is proposed to cover and how it will be developed. It is intended to generate discussion and encourage comment so that members of the NPO community can contribute to the development of a solution for the sector. The Consultation Paper is the first step in a three-step process as outlined in Figure 4.1.

Figure 4.1: Three-step process for developing NPO-specific international financial reporting guidance



## 4. The Consultation Paper

- 4.2** Feedback received in response to this Consultation Paper is of critical importance to the project. It will influence the development of the Exposure Draft (ED), which will be the first point at which detailed solutions are developed. The ED is currently planned for publication in mid-2023, with the final Guidance complete in mid-2025. These timings will be reviewed once the consultation responses have been received. The extent and diversity of views among the responses may require this timetable to be extended so that differences of view can be fully considered.
- 4.3** The overriding aim is to engage stakeholders<sup>5</sup> about the need for common financial reporting guidance that can be applied internationally for NPOs. NPO stakeholders include, for example, senior executives in NPOs, grant makers (large donors), regulators, governments (including tax authorities), auditors, NPO finance teams, creditors, academics and members of the public that support or benefit from the work of NPOs. The Consultation Paper therefore discusses issues that are understood to be important to those individuals or organisations among these groups that have an interest in NPO financial reporting.
- 4.4** The Consultation Paper material has been structured to allow comment on some or all aspects of its contents. This is to encourage input from a wide range of individuals or organisations who may have differing interests in NPO financial reporting.
- 4.5** The Consultation Paper makes a number of proposals. These include a proposed model for developing the Guidance. Making these proposals is intended to enable feedback to be made from a common base, which will then assist with analysis of the responses. Comments provided through feedback will inform the development of the Exposure Draft.
- 4.6** Advice has been taken from the project's advisory groups in developing the Consultation Paper.<sup>6</sup> The Technical Advisory Group comprises a number of individuals from national standard setters, and the Practitioner Advisory Group comprises individuals from across the NPO community. Members of these groups have been appointed in their individual, voluntary capacity.

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<sup>5</sup> More information about stakeholders and their requirements can be found in paragraphs 2.4 to 2.12 of Part 1: Chapter 2.

<sup>6</sup> For further information about the Technical Advisory Group (TAG) and Practitioner Advisory Group (PAG) see Supplementary information: Additional project Information.

# 5. Navigating the Consultation Paper

- 5.1 The Consultation Paper has two parts to allow readers to access the material of most interest to them.

**Part 1 addresses broader financial reporting issues and is likely to be of interest to a wide range of individuals and organisations.** It deals with framework issues relevant to General Purpose Financial Reporting for NPOs. Part 1 includes consideration of the entities that might be categorised as NPOs and so could benefit from the Guidance, the role of accountability and decision making, the features needed of financial reporting for NPOs and the potential suitability of existing international accounting frameworks. Part 1 includes **General Matters for Comment**, with feedback sought on a number of broader questions, including proposals for how the Guidance should be developed.

**Part 2 addresses the technical accounting considerations of specific issues and is likely to interest those who prepare, audit or make extensive use of NPO financial reports.** It sets out the process for the identification of key NPO-specific issues, with a description of the nature of each issue, and proposes criteria for selecting issues to be included in the initial Guidance. It also provides more in-depth analysis and consideration of alternative approaches to those NPO-specific issues. Alternatives are based on relevant existing international and national guidance. No recommendation is made about which alternatives should be adopted. Part 2 includes **Specific Matters for Comment**, with feedback sought on the specific issues and possible approaches.

- 5.2 **Supplementary material** supports the content in both Part 1 and Part 2, as well as providing further information about the project and how the Consultation Paper has been developed.
- 5.3 A **glossary of terms** provides the general meanings for terms used in the Consultation Paper to enable readers to engage with the issues and questions raised.
- 5.4 Additional materials will be posted on the IFR4NPO website<sup>7</sup> to support this Consultation Paper.

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<sup>7</sup> Website: [www.ifr4npo.org](http://www.ifr4npo.org)

## 5. Navigating the Consultation Paper

Figure 5.1: Summary of Parts 1 and 2 of the Consultation Paper





### 6. Responding to the consultation

- 6.1** Comments are welcome on any or all of the matters discussed in this Consultation Paper.
- 6.2** There is no requirement to respond to all issues. Respondents may provide feedback to all of the questions raised in the Consultation Paper or may choose to respond only about certain elements – there is not a requirement to respond to all questions. This includes the option of responding only to certain specific issues in Part 2. There is no minimum number of Matters for Comment that can be addressed in a response. However, the greater the number of responses received, the richer the feedback for the project team to consider.
- 6.3** Respondents may provide their feedback in one of three ways and should determine which method is most appropriate using the flow chart in Figure 6.1. Those uncertain about which method is most appropriate may contact us [here](#). The methods available are:
- A **comment letter** to be submitted electronically through the website, using the ‘Submit a comment’ link [here](#);
  - The completion of a **proforma word document**. There are separate documents available for responding to Part 1 and Part 2. These can be downloaded from the website [here](#). Once complete the documents should be submitted to the website using the ‘Submit a Comment’ link [here](#).
  - An **on-line survey** accessed through the website [here](#). There are separate surveys available to respond to Part 1 and Part 2.

## 6. Responding to the consultation

Figure 6.1: Methods available for providing feedback



## 6. Responding to the consultation

- 6.4** Comments are the most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals. All comments will be considered a matter of public record and will ultimately be posted on the IFR4NPO website.
- 6.5** Respondents are requested to include in the response the following details:
- Name of person providing the response and whether this is in an individual capacity or on behalf of an organisation.
  - Description of the respondent's role if an individual.
  - Description of the activities of the organisation where on behalf of an organisation.
  - Jurisdiction to which the feedback relates.
  - Information about the accounting standards used for year-end financial statements in the jurisdiction to which the feedback relates.
  - If from an NPO, the International Classification of Non-Profit Organisation (ICNPO) group that best describes the organisation and its activities.<sup>8</sup>
  - If from an NPO, information about the relative importance of different funding sources (eg grants, donations from members of the public, membership fees, sales proceeds) and overall levels of annual revenue (optional).
- 6.6** The closure dates for responses are as follows:



**Comments on Part 1 are requested by 30 July 2021**

**Comments on Part 2 are requested by 24 September 2021**

- 6.7** Although IFR4NPO prefers that comments be submitted via the website, emails may be sent to **IFR4NPO@cipfa.org**. Comments can also be sent in hard copy to:

Head of Programme, IFR4NPO  
Chartered Institute of Public Finance and Accountancy  
77 Mansell Street  
London, E1 8AN  
United Kingdom

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<sup>8</sup> [http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP\\_WP19\\_1996.pdf](http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP19_1996.pdf)

