

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED11-01

28 March 2023 – Online

Supplementary Statement

Summary	<p>This paper sets out:</p> <ul style="list-style-type: none"> • Background to development of guidance on Supplementary Statements • Key principles and proposals • Considerations around inclusion of Supplementary Statements within general purpose financial reports, and inclusion of the guidance within INPAG
Purpose/Objective of the paper	<p>To seek TAG's views with respect to guidance on the presentation of Supplementary Statements with the general-purpose financial statements.</p>
Other supporting items	<p>Annex A – Supplementary Statement Guidance – core format Annex B – List of notes to Supplementary Statement Annex C – Example format for movement in funds note Annex D – Variations to core Supplementary Statement</p>
Prepared by	<p>Sam Musoke, IFRNPO Project Director, Humentum Siham Bortcosh, SSWG Technical lead</p>
Actions for this meeting	<p>Comment and advise on</p> <ul style="list-style-type: none"> • Inclusion of a 'movement in funds' note within INPAG • Treatment of 'support costs' • Mandatory use of the 'core format' • Inclusion of Supplementary Statements within general purpose financial reports and location of guidance • Audit and assurance requirements
Acronyms	<p>Acronyms are included in Annex E</p>

1. Background

- 1.1 Providers of grant funding to NPOs frequently require special-purpose financial (and other) reports, specific to the activities they are funding. Numerous comments during our stakeholder outreach since 2020 referenced the lack of harmonisation in donor reporting formats being a burden to NPOs. Funders and auditors also acknowledged that the inability for grant level reports to be reconciled or cross referenced to entity level audited accounts is also a challenge with respect to assurance of special-purpose reports.
- 1.2 In September 2022, it was proposed that the project should develop a standard format for an optional Supplementary Statement that can meet the financial accountability needs of providers of grant funding. Its objective was to present key auditable financial information about a specific project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to primary users.
- 1.3 Accordingly the Supplementary Statement Working Group (SSWG), was set up to develop proposals in this regard, comprising 6 members from the Donor Reference Group, Practitioner Advisory Group, Technical Advisory Group and a Country Champion. A Technical Lead, Siham Bortcosh, was appointed to work with and on behalf of the group.
- 1.4 INPAG is intended to provide guidance on the presentation of 'general-purpose financial reports'. These are designed to be useful to a range of users, and are distinguished from 'special purpose financial reports' which are prepared for a specific user or group of users.

2. Progress to date

- 2.1 The work of the SSWG began in November 2022, with an initial meeting, a series of semi-structured interviews with each member, the development and review of a draft set of principles and proposals, and finally the development and review of draft guidance notes and sample formats.
- 2.2 In the development of the work, a number of issues have been identified. These are set out in Section 4 below.
- 2.3 The proposals have been discussed with the Donor Reference Group and with the Practitioner Advisory Group. This paper incorporates comments as appropriate.

3. Key principles

Specified activities

3.1 A Supplementary Statement may be developed to present the income, expenses and capital costs (ie non-current assets) in relation to a set of 'specified activities'. These activities may relate to a certain grant, project or programme as defined by the NPO. The specified activities are referenced in the name of each Supplementary Statement.

Useful to primary users

3.2 While not necessary for providing a true and fair view, any Supplementary Statement(s) presented should be useful to primary users, not just to the funder of a specific set of activities. The following areas of added value have been identified:

- Prospective providers of finance, including prospective donors, are interested to see that an NPO has the capacity to track income and costs relating to a particular project or grant.
- The risk of unidentified double funding fraud, which is a key concern to the donor community generally, is mitigated through the presentation of Supplementary Statements that are reconciled to a Movement in Funds Note.
- Where project / grant based funding forms a significant proportion of the income and expenses of an NPO, the presentation of Supplementary Statements improves the quality and reliability of audit assurance on the primary financial statements and notes.

Optional in INPAG, potential donor requirement

3.3 The option to present one or more Supplementary Statements is proposed to be at the discretion of the reporting NPO under INPAG, depending on the way it structures its activities. It is envisaged that providers of restricted grants could choose to require the presentation of a Supplementary Statement for the activities they fund, for presentation alongside the grantor's general purpose financial statements, within the compliance obligations associated with a grant agreement.

Core mandatory format

3.4 The draft guidance stipulates that if an entity opts, or is required by funders, to present any Supplementary Statement(s), alongside its general purpose financial reports, any such Supplementary Statement(s) must comply with a prescribed format for the core information. This information would be consistent with, and

reconciled to information in the with the general purpose financial statements as follows:

- Any Supplementary Statement(s) must be presented in the same **currency** as the general purpose financial statements, as a minimum.
- The income and expense **headings** used in the Supplementary Statement must align with the Statement of Income and Expenditure (which is yet to be addressed in Exposure draft 3).
- The basis of recognition of income and expenses must align with INPAG, ie **accrual basis**, not cash or modified basis.
- If the Specified Activities have been financed by a mixture of funds with and without restrictions, such **fund categories must be shown in different columns** in the Supplementary Statement(s).
- Any items relating to the Specified Activities that are included within the Statement of Changes in Net Assets within the primary financial statements must be separately identified.
- The opening and closing fund balances in the Supplementary Statement should be consistent with a 'movement in funds' note within the general purpose financial statements.
- Any 'capital costs', ie acquisition of property plant and equipment (PPE) or other non-current assets in the Supplementary Statements, shall be included within additions in the appropriate note accompanying the general purpose financial statements.

The proposed format for the core Supplementary Statement is in **Annex A**.

Position of Supplementary Statement(s) and notes

3.5 It is proposed that any Supplementary Statement presented be positioned after the notes to the primary financial statements. Each Supplementary Statement would be followed by its own set of notes. Some notes are mandatory, some are required if applicable, others optional.

The list of proposed notes is in **Annex B**.

Name of Statement

3.6 The proposed full name is 'Supplementary Statement of Income, Expenses and Capital Costs for [Specified Activities]'. This has been broadly supported, but the key feedback to date has been on the need to positively identify that the statement is supplementary and not a primary financial statement.

Question 1: What are the TAG views on the Supplementary Statement and the proposed approaches regarding:

- (a) Optionality in INPAG?
- (b) Core mandatory format?
- (c) Positioning of supplementary statement and notes?
- (d) Name of the statement?

4. Issues to consider

Movement in funds note

4.1 The Supplementary Statement could be especially useful if combined with and reconciled to a movement in funds note included within the general purpose financial statements within INPAG, showing a summary of the movements (total income, total expenditure and transfers) on the major funds of the NPO. A reconciliation of the Supplementary Statement to the relevant line within such a note would strengthen assurance and transparency in relation to reporting on funding considerably.

An example format for such a note is shown in **Annex C**.

Question 2: What are the TAG views on an additional requirement within INPAG to include a movement in funds note in Section 6 Statement of Changes in Net Assets?

Flexibility in presentation of support costs

4.2 'Support costs' is the proposed term for indirect costs that relate to the organisation as a whole, rather than directly to the Specified Activities, but are allocated to and included in the Supplementary Statement, on the basis that they are necessary to support the Specified Activities.

4.3 The proposed approach for the inclusion of 'support costs' within the Supplementary Statement is designed to allow flexibility. NPOs may choose to identify such costs as a separate line item, or include them within the natural cost classifications, depending on the funding arrangements it has. The notes to the Supplementary Statement should clearly set out any difference in the expenditure analysis as shown in the Supplementary Statement compared to the primary statement or notes to the GPFR.

4.4 The link to the primary financial statements and notes would be strong if there were a requirement within INPAG for support costs to be disclosed.

Question 3: Do TAG member have any concerns about the proposals for support costs given the likely need for reconciliation to the primary statement or notes?

Flexibility in additional column headings

4.5 The core format is proposed to be mandatory for the Supplementary Statement, (namely the amounts for the year, expressed in the presentation or 'home' currency), but the Working Group recognised there would be significant advantages in allowing some flexibility in other columns. Such variations would allow NPOs to make adaptations to address their own specific circumstances and certain donor reporting requirements. The proposals include flexibility in terms of additional columns and reference to other comparative information such as budgets or amounts expressed in different currencies. The list of proposed variants is in **Annex D**.

4.6 The variations are divided into those that draw on information available from the NPO's current year ledger, and those that would use information from other sources. While this flexibility increases the utility to current funders, it risks reducing consistency. Part of the risk around consistency can be mitigated by a requirement that the core format in Annex A is used for all variants.

Question 4: Do TAG members agree that the core format is a mandatory requirement where a Supplementary Statement is produced? What are TAG members views on the flexibility with respect to additional columns?

Inclusion within general purpose financial reports prepared under INPAG

4.7 With this degree of flexibility and optionality there are questions about the extent to which the Supplementary Statements should be within a general purpose financial report prepared under INPAG.

Question 5: What are TAG members' views on whether the Supplementary Statements should form part of a general purpose financial report?

Location and timing of Guidance on Supplementary Statements

4.8 There is a spectrum of options in the relation to the timing and location of the Guidance with respect to INPAG, including:

- Include some or all of the Guidance within main INPAG – proposals included as part of ED3
- Include some or all of the Guidance as an Annex to INPAG – proposals included as part of ED3
- Publish comprehensive Guidance separately to INPAG
- Include some of the Guidance as an Annex to INPAG – proposals included as part of ED3 - and publish comprehensive Guidance separately, after deeper engagement with more members of the donor community.

4.9 Highlighted below are the various elements relevant to the Supplementary Statement proposals that may be considered for inclusion in the main body of INPAG, an Annex to INPAG, or outside of INPAG.

	INPAG	Annex to INPAG or separate document
Movement in funds note		
Requirement that any Supplementary Statements presented within GPFR shall follow guidance in Annex		
Guidance about the positioning of any Supplementary Statements should they be presented as part of GPFR		
Requirement for 'support costs' to be disclosed in the notes, if not on face of primary statement.		
Introduction & scope of Supplementary Statements		
Presentation of Supplementary Statements in the GPFR		
Information that shall be included in the SS		
Information that may be included in the SS		
Purpose and location of notes to the SS		
Notes that shall be provided		
Notes that may be provided		
Glossary of terms (eg project, programme, grant, specified activities etc)		
Definitions of expense headings		
Sample formats (single column)		
Sample formats (variations involving information from the current ledger)		
Sample formats (variations involving information from outside the current year ledger)		

4.10 A majority of members of the SSWG, DRG and PAG expressed views that inclusion of all aspects of the SS Guidance within main INPAG or an Annex, with proposals for inclusion in ED3, would deliver maximum benefits to the sector as a whole in relation to:

- Adoption of the formats by donors and NPOs
- Reduced duplication effort by reporting entities, grantors and auditors
- Enhanced assurance value
- Clarity about indirect costs that could influence grant making practice

Question 6: What are TAG members views on the location of guidance with respect to Supplementary Statements, and what could be included in INPAG now to meet the needs of primary users and the sector?

Audit and assurance

4.11 There is a need to ensure that there is clarity to users about the scope of any audit opinions or other assurance expressed with respect to the GPFRs and any Supplementary Statements presented. This is clearly linked to what is included in INPAG. The Secretariat are of the view that audit requirements should not be included within INPAG. The Secretariat are also of the view that more extensive discussion should take place within the audit community to determine what may be an appropriate approach to audit and assurance requirements with respect to Supplementary Statements.

Question 7: Do TAG members agree with the Secretariat's views that INPAG is silent with respect to audit and assurance requirements?

5. Next Steps

5.1 Subject to the input received, the draft guidance will be revised and taken back to the SSWG. The SSWG will be notified of the feedback from the DRG, PAG & TAG and the proposals further developed and brought back to the TAG in due course.

March 2023

Annex A - Draft Supplementary Statement 'Core' format

Supplementary Statement of Income, Expenses and Capital Costs for [INSERT reference for or name by which the Specified Activities are known]		
For the year/period ending []		
	Note	Currency unit
Income		
Grants and donations		
Other income		
Total income		
Expenses		
Direct expenses		
Employment		
Travel and subsistence		
Supplies and materials		
Running costs, external services and other		
Gifts in kind		
Grants payable		
Support costs		
Total expenses		
Foreign currency translation gains/losses		
Transfers		
Other financial changes		
Change in fund balance		
Opening fund balance		
Closing fund balance		
Capital Costs		
Expenses recognised above		
Less: depreciation or amortisation charged		
Add: capital costs incurred		
Total costs		
Closing fund balance after capital costs		



Annex B - Proposed notes to the Supplementary Statement

M Mandatory

R Required if applicable

O Optional

Note	Title	Contents	
1	Purpose	The purpose of the Supplementary Statement by reference to this guidance	M
2	Scope	A description of the Specified Activities	M
		A cross-reference the opening and closing balances shown in the Supplementary Statement to the relevant note in the general purpose financial statements according to the requirements of INPAG	M
3	Basis of preparation	Confirmation that the Supplementary Statement has been prepared on the same basis and using the same accounting policies as the general purpose financial statements.	M
4	Presentation	An explanation of the presentation and layout of the Supplementary Statement if additional columns are presented	R
5	Income	An analysis of the income where the entity includes income amounts other than the grant or donation income related to the Specified Activities, with an indication of where in the general purpose financial statements it is included	R
6	Expenses	Any further analysis of the expenses included in the Supplementary Statement	O
7	Support costs	The basis of the support cost charges included in the Supplementary Statement and basis of apportionment to the Specified Activities	R
		An indication of where these costs are included in the general-purpose financial statements	R
		Any amounts of Support costs allocated to any of the expenses lines within "Direct expenses", including an indication of where they are included in the general purpose financial statements, and an explanation of the basis of allocation to the expense line headings.	R
		An indication of the support cost rate of the entity, and the basis of calculation	O
		The difference between the support costs supplied by the income included in the Supplementary Statement, and the entity's support cost rate based on its actual expenses	O
8	Foreign currency translation gains and losses	An explanation of the basis upon which gains or losses have been calculated	R
		The extent to which gains or losses are unrealised	R
		An explanation of the foreign currency translation rates used to arrive at the amounts shown in the Supplementary Statement.	R



		The amount of the income, expenses or grant or fund balance had different foreign currency translation rates been used (where applicable), with an explanation of the basis of the alternative rates	O
		The amount of any costs which have arisen in connection with the Specified Activities because of foreign currency translation, that have been covered by another funding source, with an explanation	O
9	Transfers	An explanation of any fund transfers included in the Supplementary Statement	R
10	Other financial changes	An explanation of any other amounts included within Supplementary Statement and where they appear in the primary financial statements.	R
11	Capital costs	An explanation and details of any capital costs included in the Supplementary Statement	R
12	Reconciliation to cash basis	A reconciliation of the income amounts within the Supplementary Statement to the cash amounts received in the period in relation to the Specified Activities	O
		A reconciliation of the expense amounts within the Supplementary Statement to the cash amounts expended in the period in relation to the Specified Activities	O

Annex C - Example format for a 'Movement in funds' note

Movement in Funds	Opening Balance	Income	Expenses	Surplus/ deficit	Other gains and losses	Transfers	Closing Balance
Funds with restrictions							
Grant / Programme 1							
Grant / Programme 2							
Grant / Programme 3							
Other funds with restrictions							
Total funds with restrictions							

Annex D - Proposed optional variations for column headings

Format variations using data from the NPO's current-year ledger:

- **Donor reporting date:** the amounts for each line split into two time periods which together make up the reporting period of the general purpose financial statements. This would allow the NPO to split the Supplementary Statement report so that it can show the information to the donor's reporting year, where this is not the same as the NPO's accounting reference date.
- **Multiple grants:** more than one grant or donation may be included in the Supplementary Statement, depending on the income related to the Specified Activities. The NPO may include each such grant or donation, with the related expenses, as a separate column in the Statement. This would allow the NPO to report on a programme of work funded by more than one grant, for example, while identifying each grant separately.
- **Funds without restrictions:** the NPO may include expenses funded from funds without restrictions in the Supplementary Statement. Where it does so, funds without restrictions must be shown as a separate column from funds with restrictions. This would allow NPOs to report on the any contribution made from unrestricted funds to the activities funded by a particular grant, for example.

Format variations with information sources outside the NPO's current year (functional currency) ledger:

- **Donor currency amounts:** the amounts in the currency in which the income was provided to the NPO.
- **Budget amounts:** the budget agreed with the donor(s) funding the Specified Activities.
- **Multi-year amounts:** the prior period amounts relating to the Specified Activities, each in a separate column. This allows cumulative reporting, year by year, on multi-year grants.

Annex E – Acronyms

INPAG: International Non-Profit Accounting Guidance

NPO: Non-profit Organisation

SS: Supplementary Statement

SSWG: Supplementary Statement Working Group

TAG: Technical Advisory Group

GPFR: General purpose financial reports