



# IFR4NPO Project

Advice and Requests  
Technical Advisory Group meeting

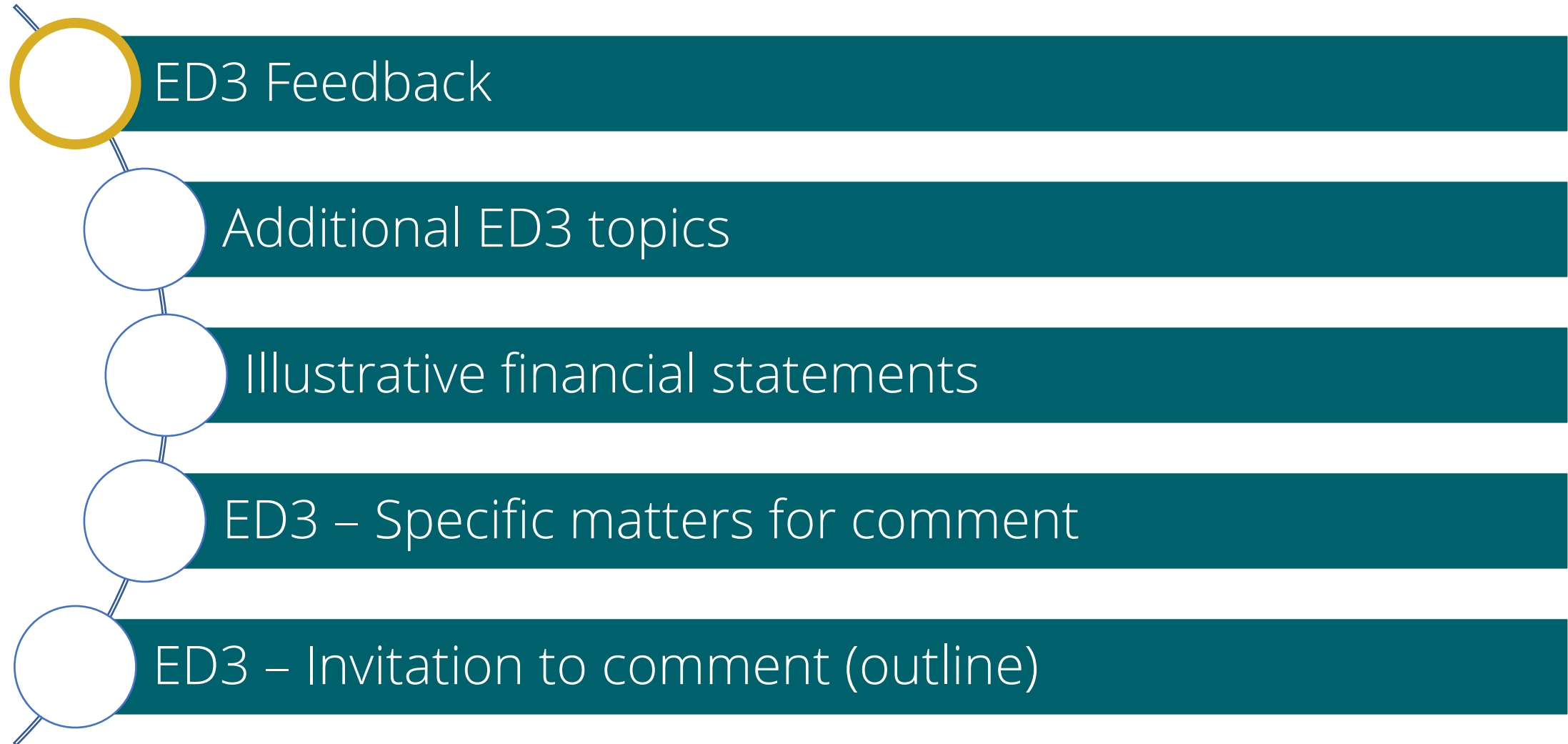
27 February 2024

TAGED17





# Session outline



# Agenda item 1 – ED3 Feedback – Classification of expenses, fundraising costs and related party disclosures

## 1.1 Advice

- a) Clarity is needed on whether the final version of INPAG will be based on the draft Third edition of the *IFRS for SMEs* Accounting Standard or on the final version of this standard when it is published.
- b) Investment management fees for fundraising costs should relate to investment property held at cost as well as those held at fair value, as both valuation models are permitted.
- c) What is meant by 'special conditions' when referring to donations made by a governing body member as a related party and how this differs to any other kind of donations is not clear. It is the uniqueness of the conditions that need to be addressed.

# Agenda item 1 – ED3 Feedback – Fund accounting

## 1.1 Advice

- e) When considering payables and receivables, for many funds practically any assets and liabilities will be to or from the general fund and it may be useful to acknowledge this in the Basis for Conclusions.
- f) Assets can be donated for use by a fund, which are not owned by the NPO. These need to be considered for fund accounting purposes
- g) Consider if there is an inconsistency between the proposals about which costs are allocated to a fund and the proposal that foreign currency losses must be charged to a fund in order to provide transparency.
- h) In situations where the purpose for which a fund has been created is broader than an individual grant, there is a risk that project accounting gets confused with restricted fund accounting. The key in restricted fund accounting is whether the money has been spent as required.

# Agenda item 1 – ED3 Feedback – Fund accounting

## 1.1 Advice

- i) The drafting can be read that tracking assets and liabilities are a defining feature of a fund rather than what must be tracked when fund accounting is required.
- j) The meaning of the word 'fund' needs to be clear as there is confusion between funds and reserves
- k) If there is a legal requirement relating to a fund then records would be kept and the need for the drafting about legal requirements may not be necessary
- l) A concern is that too many things may be required to be a fund and the need for accounting records introduces proportionality.
- m) Inclusion of the requirement for accounting records in the definition provides a get out clause, such that if accounting records do not exist, fund accounting is not required. It would be better to expose this as a requirement rather than a definition.

# Agenda item 1 – ED3 Feedback – Fair value, assets and impairment



INTERNATIONAL FINANCIAL REPORTING  
FOR NON PROFIT ORGANISATIONS

## 1.1 Advice

- n) A definition of social use assets should be provided, so that it is clear which assets are intended to be included if this category is used.
- o) The drafting appears to allow for the possibility that an asset that has a restriction can be freely disposed of. If this is the case clarification would be helpful.
- p) The drafting infers that Section 17 might apply to more types of investment property than was intended. For example, judgement will be required about which section to use where investment properties provide facilities for the community and also have some commercial elements
- q) In the example of a donated intangible asset, reference is made to service potential that may not be appropriate. A stronger example would be helpful
- r) In the example of a donated copyright, looking at cashflows might be appropriate to value the asset.
- s) Is the term 'non-cash generating' with reference to impairment used in other standards. If it isn't could it be changed to 'assets that do not generate cash'.

# Agenda item 1 – ED3 Feedback – Other sections

## 1.1 Advice

- t) The drafting in G22.3 on equity claims has a circular reference that needs to be addressed.
- u) Narrative reporting requirements should not act as a barrier to an NPO adopting the financial statement requirements. More time may be appropriate for the transition to avoid the requirement being onerous.
- v) A two year time period for narrative reporting should be sufficient given where the minimum reporting requirement is set. There is a question for audit about the implications for the scope of the audit opinion when the narrative reporting is part of the financial report.
- w) There is no exception in the transition requirements related to subsidiaries and joint ventures and it is not clear if this is a mistake or an omission
- x) A more robust position on the transition period is preferred with an SMC to solicit feedback for consideration.
- y) Consider whether it is appropriate for the guidance to specify who should provide the attestation on the supplementary statements and whether this can be more than one individual.

# Agenda item 1 – ED3 Feedback

## 1.2 Requests

- a) Set out the thinking of the difference between funds and reserves in the drafting.
- b) Review the drafting for the accounting records, retaining this as a requirement and raise a SMC.
- c) Check IFRS 5 and IPSAS 44 (Non-current Assets Held for Sale and Discontinued Operations) to see if there is any guidance that is helpful to describing the interplay between highest and best use and restrictions.
- d) Engage with auditors members of the PAG on the potential audit implications of the inclusion of narrative reporting on the audit requirements.



# Agenda item 2 – Additional ED3 topics

## 2.1 Advice

- a) An SMC on these additional topics may not be necessary given the principle that if there are no NPO-specific matters then generally no amendments would be necessary to the *IFRS for SMEs Accounting Standard*.
- b) Supplier finance arrangements are not common. However, they should not be scoped out of guidance, just because transactions are not common today.
- c) Asking the question about the experience of these types of transactions provides evidence about the need for guidance. Supportive of the inclusion of an SMC on this additional material.

# Agenda item 3 – Illustrative financial statements



INTERNATIONAL FINANCIAL REPORTING  
FOR NON PROFIT ORGANISATIONS

## 3.1 Advice

- a) Not convinced that the receipt of a capital grant should be included in investing activities. It should be consistent with the requirements of other statements, but can be separately identified.
- b) Prefer to be silent on the where capital grants should be shown on the cashflow statement to give NPOs choice about where best to present it.
- c) Only being able to see the bigger picture about funds with and without restrictions on the Statement of Changes in Net Assets rather than the Statement of Income and Expenses brings a risk of misinterpretation of the surplus or deficit in the period. A split of the result for the period between funds with and without restrictions should be on the face of the Statement of Income and Expenses.
- d) The illustrative financial statements should show most of the circumstances that could affect an NPO and could help teach people about the presentation of the financial statements. A cross reference to the topic being discussed could be included.

# Agenda item 3 – Illustrative financial statements



## 3.1 Advice

- e) The illustrative financial statements may be too simple to show the complexity that an NPO faces in reality. Include more possibilities like revaluation.
- f) The results of transaction has left zeros in both years in some instances and these should be removed. The use of universal terms to describe transaction types would be helpful.
- g) There is a risk that too much detail may lead to a misunderstanding about the application of materiality and a more check box approach.
- h) It is unusual to have the final note as the authorisation of the financial statements. If this is included in the illustrative financial statements it should have greater prominence.

# Agenda item 3 – Illustrative financial statements



## 3.1 Advice

- e) The illustrative financial statements may be too focused on charities and practically do not illustrate other common presentational requirements. It would be useful to introduce other transactions to help in the application of the guidance..
- e) It would be useful to introduce other transactions to help in the application of the guidance.
- f) It would be useful to include a whole of entity supplementary statement to illustrate the requirements and model good practice.
- g) Start with the earliest date at the top in the Statement of Changes in Net Assets.
- h) Sharing the spreadsheet used to develop the illustrative financial statements may stray too far into training material. Also, the statements are less about the mechanics of the numbers and more about the presentation. Avoiding too much detail helps manage expectations of their purpose.



# Agenda item 3 – Illustrative financial statements

## 3.2 Requests

- a) Include commentary in the Basis for Conclusion that describes the discussion around the location of capital grants in the cashflow statement and that no specific guidance is given to allow freedom of choice.



# Agenda item 4 – ED3 Specific matters for comment

## 4.1 Advice

- a) It would be helpful to streamline the questions to reduce their number. Consider if it would be possible to have a general question about a section rather than more specific questions.
- b) Consider if the absence of an SMC in the Invitation To Comment signifies that an SMC is not important.
- c) Can questions relating to assets be combined with sub-bullets so that respondents can focus on the points of greatest interest.
- d) Question need to focus more on the proposals rather than raise questions about the underlying issues.

# Agenda item 4 – Specific matters for comment

## 4.1 Advice

- e) A general matter for comment on cost vs benefit could be included. In particular, it would be useful to raise this in the context of fund accounting.
- f) It would be useful to obtain feedback on the treatment of capital expenditure in relation to restricted funds.
- g) The word assurance in relation to supplementary statements puts the focus on auditability rather than usefulness.
- h) There is no reference to the 2-year transition period in the question on transition to INPAG. It would be useful to include this.



# Agenda item 4 – Specific matters for comment

## 4.2 Requests

- a) Put the questions related to the Practice Guide together with Section 37 questions.



# Agenda item 5 – ED3 Invitation to comment (outline)

## 5.1 Advice

- a) The ordering of the adaptations should reflect their importance.
- b) It would be useful to include material to signpost the illustrative financial statements.

# Agenda item 5 – Invitation to comment

## 5.2 Requests

- a) Put higher priority topics to the top and bring the Practice Guide forward with the supplementary information.

# Acronyms

Acronym	Full name	Description
ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance
IFRS	International Financial Reporting Standards	A set of accounting standards developed by the International Accounting Standards Board (IASB) for use by profit making private sector organisations internationally
INPAG	International Non-profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
NPO	Non-profit Organisation	For the purposes of INPAG, these are organisations that have the primary objective of providing a benefit to the public, direct surpluses for benefit of the public, and are not government or public sector entities.
SMC	Specific matter for comment	A question raised in a consultation document, including the Exposure Drafts on which specific feedback is sought