

Practitioner Advisory Group

AGENDA ITEM: PAGFG02-02

20 June 2024 – Online

Section 2 Concepts and Pervasive Principles – Primary Users – Feedback from Exposure Draft 1

Summary	<p>This paper provides the PAG with:</p> <ul style="list-style-type: none">• a summary of the responses to Exposure Draft 1 (ED1) for Section 2 (Concepts and pervasive principles)• an analysis of respondent's views relating to primary users and the description of their needs, and• the Secretariat's proposals for developing the final guidance for NPOs primary users.
Purpose/Objective of the paper	<p>The purpose of this paper is to seek PAG's views on the approach to the final guidance for primary users and the description of their needs in section 2 following the analysis of responses to ED1.</p>
Other supporting items	<p>N/A</p>
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Actions for this meeting	<p><u>Comment</u> on:</p> <ul style="list-style-type: none">(i) the INPAG approach to different types of primary users ie donors and funders, the public who benefit from the services, resource providers and those fulfilling oversight roles or representative functions(ii) the approach to primary users for those who fulfil oversight roles and those elected officials who act as representatives of resource providers and the public that depend on the goods and services provided by NPOs.

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1. Introduction

- 1.1 This paper provides the PAG with:
- a summary of the responses to Exposure Draft 1 (ED1) for Section 2 (Concepts and pervasive principles)
 - an analysis of respondent's views relating to primary users and the description of their needs, and
 - the Secretariat's proposals for developing the final guidance on NPO primary users.

2. Background

- 2.1 Section 2 (Concepts and pervasive principles) is based on the equivalent section in IFRS for SMEs but with additional interpretation for NPO circumstances. These interpretations were informed by the IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (IPSASB Conceptual Framework). It covers the following topics:
- the objective of non-profit organisations' general purpose financial reports
 - qualitative characteristics of information in general purpose financial reports
 - general purpose financial reports and the reporting NPO
 - the elements of financial statements
 - assets and liabilities
 - recognition and derecognition
 - measurement, and
 - presentation and disclosure.
- 2.2 There were nine SMCs included in ED1 and the Invitation to Comment. Annex A summarises the responses for each SMC. Largely respondents were supportive of the proposals. A full analysis of the responses to the SMCs for Section 2 is available in the report to TAG (see TAGFG01-03).
- 2.3 Section 2 describes resource providers and the public that depend on the goods and services provided by the NPO as primary users of general purpose financial reports (GPFs). Consistent with international frameworks it

comments that users that have rights to demand information tailored to meet their particular information needs are not primary users. For example, donors are not considered to be primary users of general purpose financial reports when their relationship with the NPO is part of a specific funding arrangement. It also suggests that the interests of resource providers and the public may be served by those fulfilling oversight functions on their behalf.

- 2.4 This paper seeks PAG's feedback on the approach to primary users and a description of their needs as a part of Section 2 (Concepts and pervasive principles).

3. Feedback from exposure Draft 1 – primary users and the description of their needs

SMC 3(a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?

- 3.1 Eighty-three percent, (fifty respondents), agreed with the range of primary users and the description of their needs with seven percent, (four respondents), disagreeing and ten percent, (six respondents), indicating that they neither agreed nor disagreed. Nine respondents provided no response to this SMC.
- 3.2 The respondents that agreed with the range of primary users and the description of their needs commented that the user categorisation (i.e. resource providers and the public that depend on the goods and services provided) covers a multitude of different stakeholders. They agreed that these categorisations are appropriate for general purpose financial reports (GPFs) and that the needs of NPO service users are given prominence as primary users.
- 3.3 There are a range of users under the categorisation presented by INPAG, donors probably being one of the most complicated. Depending on the circumstances donors may be primary users but when they have the authority to request special purpose reports they are not.
- 3.4 One respondent commented on the different types of donors or providers of grants. As noted in paragraph 2.3 above section 2 sets out that a user that has the authority to require an NPO to disclose information is not considered a primary user. This respondent was of the view that this made the treatment (categorisation of donors) less clear. This respondent appeared to recognise

the different characteristics of donors who, depending on their ability to request information as a part of the funding arrangements (ie whether they are able to request special purpose reports), may or may not be primary users.

- 3.5 Another respondent agreed that when donors act like any other resource providers they may be primary users. They also commented that when donors have rights to demand information tailored to meet their particular information needs and are excluded from primary users, they should be encouraged to reduce other information requirements.
- 3.6 The Secretariat considers that additional clarifications or guidance about the circumstances when a donor is acting as a primary user and when they are not would assist accounts preparers and other stakeholders in the understanding of the requirements and their application.
- 3.7 A respondent raised a concern about board members being excluded as primary users on the basis that they have the rights to request information. This respondent was of the opinion that they should be included because they:
 - act in a fiduciary capacity
 - are sometimes the only users of the GPFRs, and
 - act as representatives of services users.They also noted that the ability to request information can be more of a theoretical possibility than a practical one. Other respondents provided various comments relating to internal stakeholders as needing to be included as primary users including, members, execution partners and managers acting as stewards.
- 3.8 International financial reporting frameworks specify that those who possess the authority to require an entity to disclose the information they need are not primary users of GPFRs. When board members are fulfilling oversight functions and representing the needs of the public and resource providers they are expected to be acting as primary users.
- 3.9 This was previously discussed by TAG, with the prevailing view that board members would not by default be primary users. The Secretariat does not propose that board members or other internal users should be included as primary users. This does not mean that board members or other internal users are not users of general purpose financial reports, but that general

purpose financial reports are not designed to meet any of their specific needs.

- 3.10 One respondent commented that it is unhelpful to remove the 'primary users' envisaged by IFRS for SMEs. They recommended that in addition to the public, resource providers, and those that fulfil oversight functions, the Guidance also lists investors, lenders and other creditors. Two respondents discussed other entities requiring information for due diligence purposes such as banks but also donors or funding agencies.
- 3.11 The Secretariat is of the view that INPAG has not removed investors, and particularly lenders and other creditors, from the list. These are resource providers following a similar model to the IPSASB Conceptual Framework. The Secretariat proposes to include additional guidance to make clear that such organisations are resource providers.
- 3.12 The issue of bankers and other entities was raised. These users might be using the information for due diligence or other purposes. Similar to donors these groups would be primary users when the information they require is used to assist decision making about the provision of resources (and where they do not have the right to request special purpose financial reports).
- 3.13 A number of respondents suggested that regulators (including governments) should be specifically included as primary users, with their responses indicating that information in the financial reports is used to support compliance, monitoring and other decision making analysis. However, another respondent that neither agreed or disagreed raised concerns that those fulfilling oversight functions on behalf of the public or resource providers should not be included as primary users. This respondent commented that this stakeholder group has the authority to prescribe information and hence their need is fulfilled more by a special purpose financial report.
- 3.14 The respondent's view of the term 'oversight', appears to have been interpreted as those more with regulatory type monitoring roles. The Secretariat is of the view that regulators and government ministries that can specify financial reporting requirements for NPOs are separate from those fulfilling oversight functions such as civil society or similar groups. In many cases while undertaking oversight functions on behalf of actual or potential service recipients they do not have the rights to specify reporting needs.

- 3.15 Most regulators and governments (where they set NPO financial frameworks) are, by their nature, able to require financial reports from NPOs within their jurisdiction. Ordinarily they would not be primary users. This is similar to the role of regulators included in the IPSASB Conceptual Framework, (paragraph 2.6). There might be limited cases, where they are not able to do this, for example, a government department that is only responsible for assessing NPOs service delivery capabilities or functions in which case they might be considered to be those that fulfil oversight functions and meet the definition of primary users.
- 3.16 INPAG also reflects the approach in the IPSASB Conceptual Framework where elected representatives who act in their capacity as representatives of resource providers and service users are deemed to be primary users. However, the Secretariat will amend the wording to be clearer about these potential users in line with the response to paragraph 3.14.
- 3.17 The Secretariat proposes adding *'those representing resource providers and the public that depend on the goods and services provided by NPOs'* instead of the description of those providing *"oversight functions"* to make the meaning clearer. This will be supported by guidance following the approach to this issue in the IPSAB Conceptual Framework.
- 3.18 Two respondents that disagreed commented that the public should not be a primary user. They were of the view that NPOs are accountable only to the providers of resources, and not to those benefiting from the activities of the NPO. This view was offered on the basis that the service recipients do not provide funds. One commented that if the public is considered as a primary user, then customers should also be considered as the primary users of for-profit entities, which is not the case as per the IASB's Conceptual Framework for Financial Reporting (IASB Conceptual Framework).
- 3.19 One of the respondents commented that a paragraph similar to paragraph 1.10 in the IASB Conceptual Framework, which discusses wider users such as the regulators and the general public, should be included in INPAG. The approach taken by INPAG is similar to the approach taken by IPSASB where entities are accountable for their use of resources and to those who depend on them to provide services. Accountability also originates from an NPO's mission or objects, which will be to deliver services or activities on behalf of specific user groups, or to support the public in general. As a consequence, the Secretariat does not concur that a similar paragraph to 1.10 of the IASB Conceptual Framework should be included.

- 3.20 A respondent indicated that there might need to be more discussion of the particular needs of NPO users as opposed to commercial users of the financial statements. However, the Secretariat is of the view that this is provided by paragraphs G2.7 to G2.12 of section 2. Further detail could be developed through educational materials.
- 3.21 One respondent was of the view that the drafting on primary users was focused on who they were not, rather than who they were. Two respondents produced their own specifications, with one drawing from the Basis for Conclusions to clarify their understanding of the primary users. The Secretariat proposes to augment the guidance by further describing primary users, and by considering whether any further authoritative guidance on the key characteristics of primary users is needed.

Question 1: Do PAG Members agree that when donors and other resource providers such as banks are using general purpose financial reports for due diligence they are acting as primary users? Are there other circumstances where they might be primary users?

Question 2: Do PAG Members agree that governing body members are not primary users because they have the right to request special purpose financial reports?

Question 3: Do PAG members consider that members of the public are primary users?

Question 4: What are PAG members' views on how INPAG frames those carrying out oversight functions? Specifically, do PAG members agree that *'those that are representatives of resource providers and the public that depend on the goods and services provided by NPOs'*, should be used instead of those fulfilling oversight roles?

Question 5: Are PAG Members of the view that there are other primary users which should be explicitly referred to in section 2?

Annex A – Summary of Feedback Responses to SMCs

SMC 3(a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?	Response	Number	% of those who responded (58)
	Agree	50	83%
	Disagree	4	7%
	Neither agree nor disagree	6	10%
	No Response	9	-
		69	100%

SMC 3(b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?	Response	Number	% of those who responded (60)
	Agree	55	92%
	Disagree	-	-
	Neither agree nor disagree	5	8%
	No Response	9	-
	Totals	69	100%

SMC 3(c) Do you agree with the components of net assets? If not, why not.	Response	Number	% of those who responded
	Agree	41	69%
	Disagree	11	18%
	Neither agree nor disagree	9	13%
	No Response	8	-
		69	100%

SMC 3(d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why. What type of equity might an NPO have?	Response	Number	% of those who responded
	Agree	34	57%
	Disagree	19	32%
	Neither agree nor disagree	7	11%
	No Response	9	-
		69	100%

SMC 3(e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why?	Response	Number	% of those who responded
	Agree	61	100%
	Disagree	-	-
	Neither agree nor disagree	-	-
	No Response	8	
	69	100%	

SMC 3(f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions and that they should be transferred to equity prior to distribution? If not, what would you propose and why?	Response	Number	% of those who responded (55)
	Agree	34	61%
	Disagree	18	32%
	Neither agree nor disagree	4	7%
	No Response	13	-
	69	100%	

SMC 3(g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?

Response	Number	% of those who responded (57)
Agree	47	80%
Disagree	7	12%
Neither agree nor disagree	5	8%
No Response	10	-
	69	100%

SMC 3(h) Do you agree that the provisions for 'undue cost and effort' used in the IFRS for SMEs Accounting Standard should be retained? If not, why not?

Response	Number	% of those who responded (52)
Agree	41	79%
Disagree	7	13%
Neither agree nor disagree	4	8%
No Response	17	-
	69	100%

SMC 3(i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?

Response	Number	% of those who responded (57)
Agree	52	88%
Disagree	2	3%
Neither agree nor disagree	5	9%
No Response	10	-
	69	100%

