

## INPAG ED3 response

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<b>Organisation:</b> (who do you work for)	Colegio de Contadores, Economistas y Administradores del Uruguay ( <a href="#">CCEAU</a> )		
<b>Response submitted:</b>	<ul style="list-style-type: none"> <li>• on behalf of my organisation</li> </ul> Comments endorsed by President (Cristina Freire), Vice President (Silvia Leal), and (Silvia Olivera) Member of the NPO Working Group		

### SOME COMMENTS ON THE ISSUES RAISED IN THE IFR4NPO APPLICATION GUIDES.

These comments arise from the request of the organization that successfully leads the possibility of proposing a special regulatory framework for OSFLs or ESALs (NPOs) with the highly technical guidelines presented for consideration.

Obviously, for reasons of brevity, we outline briefly the specific situations that lead us to formulate our comments. We base our opinions on our professional experience with NPOs (ESALs in Uruguay), primarily mutual medical assistance societies, institutions providing direct social assistance to vulnerable populations, and Protestant confessional churches.

In medical cases, a significant portion of their income came from contracts with the National or Departmental Government but at controlled prices. In social assistance cases, their income primarily came from private donations or state subsidies or grants, either in-kind or monetary, depending on the volume of children served. In churches, funds were received from abroad subject to periodic accountability reports.

In all cases, they were exempt from national tax income or equity taxes due to Constitutional provisions, which, in some cases, might result in less stringent use of accounting practices, expenses classification, etc. Clearly, they are sometimes governed by multi-person corporate boards with co-management mechanisms (medical entities) or directors who are elderly individuals with very limited financial and accounting training.

Medical entities and churches can be categorized as medium or large organizations. Social assistance entities are considered medium or small (equivalent to SMEs).

In all cases, there were accounting systems and financial statements, including monthly reports, prepared based on accounting frameworks as if they were ordinary businesses, because there is no specific framework for NPOs (ESALs).

Despite this, the only statement analyzed and used to evaluate performance and activity progress was the Income Statement (sometimes referred to as the Statement of Increases and Decreases, Profit & Loss), expressed in current currency without any adjustment for inflation.

Greater importance is attributed to the accountability reports on the use of funds received as donations or contributions, regardless of whether there are other revenues that may be higher or lower than the donations received. The user is an interested party, and often has its own reporting structure for accountability that the recipient must follow. In Uruguay there is a Guide for accountability reports formulated by the local Professional Accounting Body, which has been adopted by state entities for such reports.

Economic and financial analysis is reserved for technical teams but was seldom used for daily decision-making at the managerial level. Due to the nature of these non-profit entities, a significant portion of the income is allocated to direct compensation for staff or outsourced or contracted services.

That kind of facts leads me to several significant observations:

1. Just as with IFRS, IAS, or US GAAP, the size of the organizations should influence the type of reports prepared by the preparers, since in many cases their users have limited or no technical training to interpret the statements or request additional information.
2. The type of Corporate Governance presents limitations when using financial statement sets, disclosures, etc., similar to those of for-profit business entities, either due to low technical training or because decisions are not made considering financial analysis with best practices.
3. In fact, complementary reports prepared with much less numerical detail and sophisticated systems but with more text, graphics, simple explanations, and presentation tools, etc., might be more useful.
4. The accrual basis should always be used. Sometimes, donor practices have led to the partial use of a cash basis due to the use of budgetary accounting, but the accrual system is crucial for the integrity of the information.

5. It would be important for each organization's central accounting system to integrate all its activities, using costs centers for revenues and expenses, allowing for the preparation of accountability reports based on this information recorded according to a generally accepted accounting framework. This would achieve better internal control of the items being accounted for, avoiding partial accountability reports.
6. The consideration of whether a revenue is Equity or should pass through the Income Statement or Comprehensive Income Statement should, unlike for-profit entities, consider that it can be substantially classified as Revenue while classifying it as Operating or Non-operating depending on the analysis of each item. And here a fundamental issue comes into play, that professional judgment is likely to play a greater role in determining such accounting allocation decisions than in a for-profit entity.
7. We have worked on Integrated Reports using tools such as the so-called 4th Financial Statement (Authored by PhD Luis Perera – PwC Chile) in large for-profit companies. In our opinion, similar preparations that demonstrate how Value Added is generated and how it is distributed could be significant elements when preparing impactful economic and financial information for NPOs, especially when there is co-management in corporate governance.
8. All these comments had been issue in accordance with Silvia Olivera Galiana, member as I of the Technical Committee on NPOs as part of the National Accountants Body of Uruguay

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