



IFR4NPO Project

Advice and Requests

Technical Advisory Group meeting

26 September 2024

TAGFG03 – Day 1



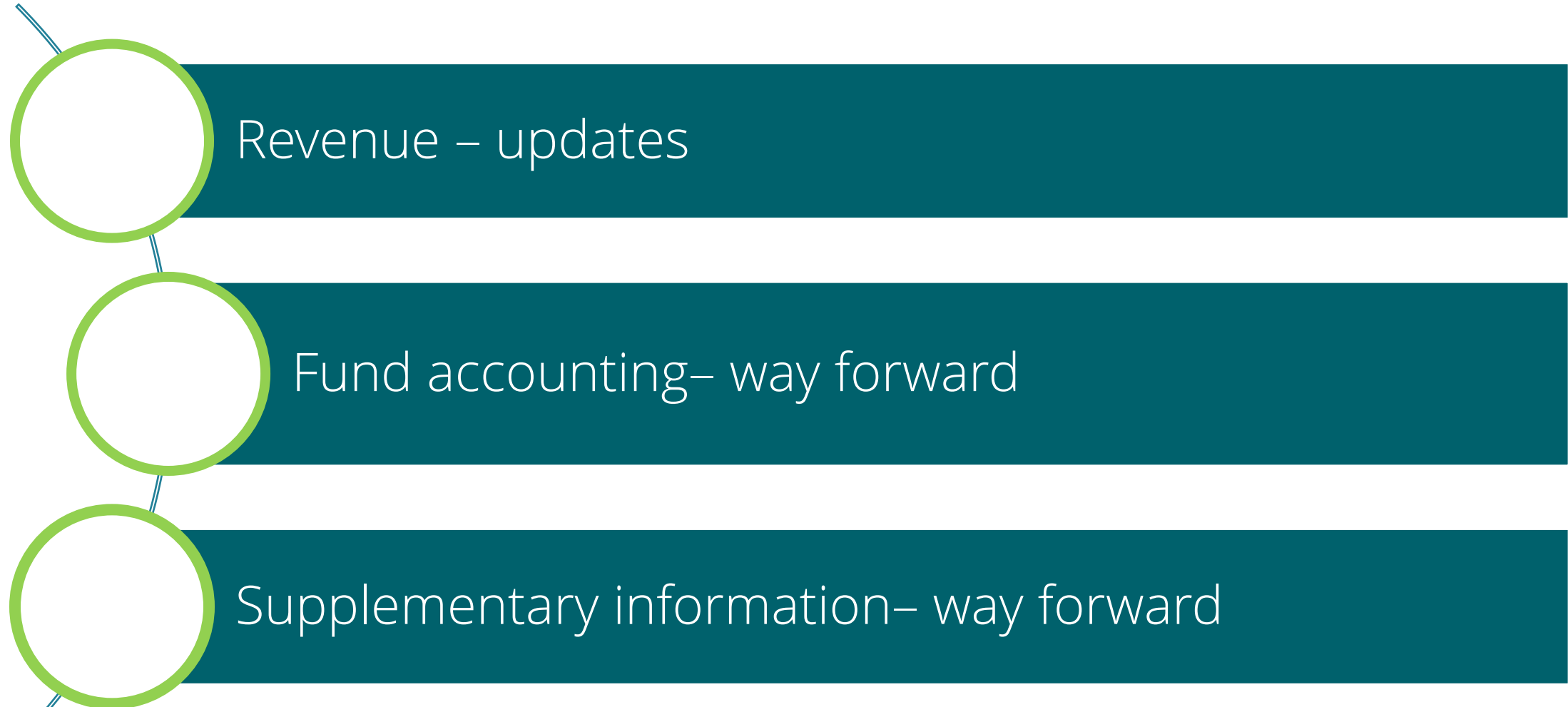


TAG meeting 3 December 2024

Attendees	Apologies
Ian Carruthers (Chair)	Tamba Momoh
Jenny Carter	Jianqiao Lu
Bernhard Schatz	
Jeffrey Mechanick	Observers
Fridrich Housa	Jeff Gabello
Bill Biese	Tim Boyes-Watson
Catherine Asmeite (part of item 2 and item 3)	Samantha Musoke
Bee Leng Tan	Michelle Samson (item 1 only)
Mohammad Anwarul Karim	
Iheanyi Anyawara (item 1 and part of item 2)	Staff
Daniel Sarmiento Pavas	Karen Sanderson
Katherine Knowlton	Nandita Hume
	Sarah Sheen
	Paul Mason (item 1 and part of item 2)



Session outline



Agenda item 1 – Revenue - updates

1.1 Advice

- a) Agree with the use of delivery obligations, but the definition is quite long, covering inputs, outputs and outcomes. It could be made more succinct, linking clearly to what is required by the agreement. Useful to check the definition against other conceptual frameworks.
- b) References to service recipient(s) and other recipients may need to be expanded and with these in mind, 'promise' might convey the meaning better than 'undertaking'
- c) Check whether the two boxes on the flow chart that are within a dotted line box need to be separate.
- d) As we are using the term grant agreement it would be useful to elevate the text proposed G23.35 to the preamble as it usefully explains what is meant by a grant



Agenda item 1 – Revenue - updates

1.1 Advice

- e) In Figure G23.1 where amounts are materially above or below the fair value of any goods or services provided - would be useful if confirmation is provided that the chart applies to part funded programmes and if, so to capture the contributions from other sources.
- f) Confirmation is needed if any support services such as bookkeeping can be considered mission critical, as the current draft appears to be tilted to programmes rather than support activities. It might create a bias that acts to boost the programme element of ratios. To eliminate this bias in the US measurability was used as the pragmatic approach to recognition.
- g) Clarification would be helpful on the tipping point for when something is mission critical, for example, the absence of a volunteer in a mission critical area might not be mission critical at a whole of organisation level.
- h) It would be useful if the Secretariat could look at whether those that didn't support the ED2 proposals regarding mission critical services were users of the financial statements, as they would be the ones interested in understanding the cost of support services.

Agenda item 1 – Revenue - updates

1.1 Advice

- i) There are a lot of cases where corporate entities provide in-kind support services, and these can be critical to the operation of the NPO. If these types of support activities are not recognised it would distort ratios. Also, it risks propagating the myth that NPOs can operate without funds for to support operations. Consideration should be given to other initiatives in the sector around overheads and to not undermine this work.
- j) Prefer one set of application guidance for the whole section if possible as there is the same 5-step model. The use of 'promise' in Part II is fine and helps to distinguish between how the 5-step model is applied through exchange transactions with a 'promise' to transfer and 'delivery obligation', where there could be internal use of resources.
- k) As the text moves away from Enforceable Grant Arrangement, the Basis for Conclusions should explain how 'delivery obligation' links to the concept and definition of the obligation.

Agenda item 1 – Revenue - updates

1.2 Requests

- a) Update the definition of delivery obligation in line with TAG advice, with further explanation in the Implementation Guidance.
- b) Check the use of 'promise' in the *IFRS for SMEs* Accounting Standard and discuss with IASB staff (subsequently confirmed as a defined term, which is not used in the same way in INPAG) and explain in the Basis for Conclusions the rationale for the approach taken to use of terminology.
- c) Update the flow chart to show the flow associated with requirements not from an agreement going directly into the box requiring assessment against Section 36, rather than merged with other flows.
- d) The Secretariat to work with TAG members (JM, JC, TBW, SM) reflecting the feedback on mission critical services issues to land a revised proposal. The rationale for the final approach including the relationship with other work/guidance to be explained in the Basis for Conclusions.
- d) Acknowledge that having application guidance for the 5-step model that covers Part I and Part II is not consistent with the overall approach to application guidance. As the introduction covers the overall approach, in this instance single application guidance will be more accessible and this needs to be explained.

Agenda item 2 – Fund accounting– way forward

2.1 Advice

- a) It was reported that PAG members expressed a range of views but having more optionality in INPAG with practice norming over time is probably the best way forward. There was not significant support for making the presentation of funds with and without restrictions on the face of the Statement of Income and Expenses mandatory.
- b) The Basis for Conclusions could be used to communicate how NPOs could effectively tell their story and how this could be presented.
- c) NPOs can disclose additional information if they want to as long as it doesn't obscure the key messages. With the Statement of Changes in Net Assets as a primary statement it doesn't appear necessary to include an additional summary table.
- d) NPOs want to be fundable and findable, and the split of restricted and unrestricted income is important. If an NPO doesn't publish notes to the financial statements, or AI is extracting information it may be useful to routinely include summary information where relevant. Therefore, a summary table should be elevated as an option.

Agenda item 2 – Fund accounting– way forward

2.1 Advice

- e) Leaving flexibility, but elevating the option to particularly include income could be informative. Based on prior experience this is considered more useful than expenses. Optionality avoids cluttering up the financial statements of NPOs where this is less relevant.
- f) The presentation of revenue line items could address the information being sought if this is split between restricted and unrestricted
- g) The proposal to modify what information is required to be tracked is supported. It matters that property, plant and equipment and potentially inventory is separately recorded.
- h) Where not all assets and liabilities are tracked is there a risk that the fund position does not unwind to zero over time. There is a risk about the completeness of the information and over the funds being spent. Reconciliations may be needed particularly where an asset is used over multiple financial reporting periods

Agenda item 2 – Fund accounting– way forward

2.1 Advice

- i) Support not tracking every single current asset by fund. There are examples of inventory which cannot be allocated to a fund until it has been used. Likewise cash advances for staff members working on multiple projects. Experience is that funds do unwind over time. NPOs can create a separate fund for PPE to be able to track these.
- j) The nature of the restriction drives the requirement to track assets rather than the accounting requirements driving this. The fact that something needs to be tracked to satisfy donors is what helps to determine whether there is a fund for accountability purposes.
- k) A rebuttable presumption could be used such that current assets will be tracked unless it is not possible. This could be supported by Implementation Guidance to provide examples and ease its use. An explanation could be made in the Basis for Conclusions.
- l) Practically many NPOs would need to rebut the presumption and if they don't have the capability their auditors may require them to do something that is more burdensome. It is better that a default works to help smaller organisations.

Agenda item 2 – Fund accounting– way forward

2.1 Advice

- m) For smaller organisations the requirement to track all assets and liabilities will not add much as this is likely to represent short term debtors and creditors that get settled quickly. There is a key question as to whether the effort is necessary given the additional information available.
- n) There are some conflicts to resolve around what is necessary and what is practical. If fund accounting is about tracking the use of resources, if not all the monies used for a specific purpose are tracked then not everything is captured and a non-zero balance will result which is not a fair representation of the expenses against the grant provided.
- o) There is a big distinction between fund accounting and asset accounting. Asset accounting is not used by many NPOs and as part of fund accounting this adds another layer to what is required. The current asset element adds a level of complexity that is not necessary.
- p) Consider the wording in the IPSASB conceptual framework and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* with regard to the factors to consider when valid expectations may be created

Agenda item 2 – Fund accounting– way forward

2.1 Advice

- q) Agree that revenue from contracts with customers should not create a fund, with exchange income in a fund, unusual. Revenue from contracts with customers may be relevant for project accounting where there might be multiple sources of funding. It would be useful to explain why exchange transactions have been included but that they are not expected to be usual in the Basis for Conclusions.
- r) Acknowledging the lack of clarity between a grant and a fund - the difference between fund accounting and project accounting needs to be clear. Not sure that fund accounting should be used to capture all of the costs of an activity, but the requirement to review negative balances and make good permanent shortfalls may provide appropriate parameters.
- s) Supplementary statements can deal with project reporting by allowing the presentation of information in different columns including different funding sources. This can be different to a fiduciary limitation on the use of funds. Clarifying the language in terms of funds, grants, projects and programmes and providing examples would be helpful. The language in the Practice Guide may be helpful.

Agenda item 2 – Fund accounting– way forward

2.1 Advice

- t) Acknowledge that some funds may arise from 'basket funding' and so a single grant is not necessarily the same as a fund.
- u) A positive balance on a restricted fund may not be transferred if it is in conflict with a grantors' requirements.
- v) Support the Secretariat's proposal to use examples to support fundamental principles only. Research on cognitive bias in the use of examples has shown that users fit fact patterns to the examples rather than using judgement.

Agenda item 2 – Fund accounting– way forward

2.2 Requests

- a) Include additional text in the Implementation Guidance on ‘the disclosure of restricted and unrestricted funds on the face of the Statement of Income and Expenses’ to help NPOs explain their financial performance.
- b) Consider the subheadings for the disclosure of revenue to support the identification of restricted and unrestricted revenue.
- c) Amend INPAG to reflect the Secretariat’s proposal to remove the requirement to track all current assets and liabilities. Expose the discussion on the requirement to track all assets and liabilities in the Basis for Conclusions to reflect the discussion among TAG members.
- d) Include a discussion of how exchange revenue might relate to funds in the Basis for Conclusions.

Agenda item 2 – Fund accounting– way forward

2.2 Requests

- e) Clarify the differences between funds, grants and projects and consider the location of this explanation.
- f) Consider the use of examples around language and the relationship with Section 37 and the Practice Guide to tie together the guidance.
- g) Circulate the summary of the research on cognitive bias on the use of examples to TAG members.

Agenda item 3 – Supplementary information– way forward

3.1 Advice

- a) It is not clear how the provisions of Section 37 are triggered. For example, is Section 37 triggered if supplementary statements are prepared even if they are not published? Confirm what is intended in terms of 'prepare' versus 'produce' and 'communicate' for Section 37 to apply.
- b) It is a lot more effort for users if they have to find the whole of entity numbers from across the financial statements and confusing if some numbers are in one place and some not. It is more useful in one place and pushes the burden to users to find the information.
- c) DRG members were of the view that having a whole of NPO Supplementary statement would help to drive harmonisation even if there is duplication. The PAG were more nuanced, with a range of views, noting the need for more detective work in finding the whole of entity information.
- d) The benefits of the bridge between INPAG and the Practice Guide is important. Increased assurance can be provided if it is easier to find the numbers at a whole of entity level. Also, it is not just about individual line items, but the balances too. This may get solved in practice by donors requesting that NPOs include a whole of entity supplementary statement.
- e) A consistent approach to applying the capital and inventory options makes sense. However, the need for flexibility is understood. This can be developed through emerging practice.

Agenda item 3 – Supplementary information – way forward

3.2 Requests

- a) Signpost more clearly that compliance with Section 37 is only needed where Supplementary statements are prepared using Practice Guide 1.
- b) Use Implementation Guidance to showcase the benefits of a whole of entity supplementary statement.
- c) Explain the flexibility in the approach for capital and inventory, noting that this will be revisited in the light of emerging practice.



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