



**International Non-profit Accounting Guidance (INPAG)**

**Exposure Draft 1 Response**

**From 9 NPOs Responses to the questions**

| **INPAG Questions** | **Comments** |
| --- | --- |
| 1. Is the structure of INPAG helpful? | 100% of them said yes |
| * b) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make | * It is agreeable to have a set of standards which best fit the NPOs. While establishing a guideline to NPOs for standardize GPRS, much of the burden to NPOs come from special purpose reports demanded by donors and regulators. * An international effort needs to be made to create awareness with the donor environment and national regulatory bodies about this standard so that they can harmonize their reporting requirements with INPAG; to limit the extent possible their reporting requirements which will be available from the GPRS, and acknowledge the usefulness accrual basis of reporting. It will be a burden for NPOs to produce reports in two bases of accounting when their donors are expecting them to produce a cash basis of accounting and the standard for accrual. * It has been explicitly indicated that donors and regulators are not primary users of GPFS. However, the can reduce the reporting burden of NPOs by demanding less as far as the GPFS contain the information they are looking for, and only to limit the content of special purpose financial statements, i,e without duplicating information available on GPRS. The project (IFR4NPO) didn’t indicate its role on promoting of INPAG with the donors and regulatory bodies so that these users can harmonize their reporting requirements in line with INPAG to avoid unnecessary burden to NPOs. The objective doesn’t specifically address on harmonization of NPOs reporting requirements (multiple reporting formats makes it expensive for NPOs. We have for instance the various declaration and conventions (like the Paris Declaration on Aid Effectiveness), which promote "use of country system" to the extent possible, to limit the reporting burden of aid recipients (countries). NPOs in developing countries are receiving small funds from multiple donors which impose their own reporting requirements. INPAG come up with more reporting requirement and worsen the already unbearable burden. I strongly recommend establishing a sort of forum to create awareness about INPAG to the donor environment and advocate for "use of INPAG based NPOs' reports, and only exceptional reports not available from INPAG to be issued as special purpose report. Sorry. A long statement... * The National regulators, like the AABE need to play vital role in harmonizing regulatory reporting requirements and bringing the donor community to be better aware of the INPAG. * NPOs invest a lot when it was mandatory to switch from local GAAP to IPSAS. Now, INPAG is about to come. NPOs are worried about the cost of conversion from IPSAS to INPAG. * In the case of Ethiopia CSOs are allowed to engage in profit making activities. In this case the inclusion of IFRS for SMEs (GP23) under INPAG will be useful for better implementation of profit making activities. |
| 1. Description of NPOs and users of INPAG |  |
| a) Do you agree with the description of the broad characteristics of  NPOs? | 100% of them agree |
| a (i) Does the term  ‘Providing a benefit to the public’ include all entities that might be NPOs? | 90% agree  10% of them indicated that the definition may not cover the following:  There are NPOs working with the government, to build the government capacity in delivering better service delivery. They NPOs do not have a direct interaction with the public but through government. Some of them are not sure the definition or explanatory notes may not include such NPOs.  There are NPOs which are not governed by the national regulatory body. In our case there are regional organizations, like those related directly or indirectly to the African Union. The national jurisdiction (both the accountancy body and the relevant regulatory body) may not enforce the application of INPAG by such entities. The same is true with UN Agencies. UN agencies appear to be using IPSAS, while many of them (like FAO, UNICEF and others) are operating like NPOs. |
| Question 3: Concepts and pervasive principles | 100% of them agree |
| a) (i) If not, what would you propose and why?  b) Do you agree with the qualitative characteristics of useful information? | The regulatory body AABE (for example, in the case of Ethiopia ACSO , partners, beneficiaries, staff) can be part of the list of beneficiaries for the purpose of monitoring and decision making.  90% of them agree, but those who disagree didn’t provide explanation why they disagree |
| c) Do you agree with the components of net assets? | 100% of them agree  Additional comment is for the inclusion of one characteristics “reliability”  -Reliability (which is attested though verification among others) is an important primary quality as for my judgmental. It is one important pillar that must be met. If the information we provide creates doubts in the mind of readers as to its reliability, then a reserved decision will be made. ultimately making the information less useful. For NGOs we say it is not what you did but what you can prove to the auditors/donors that matters the most. |
| d) Do you agree with the inclusion of equity as an element? | 67% agree  33% disagree for the following reasons:  The term Equity is referring to ownership. When NPOs are funded by donors, the money left over at the reporting date belongs to the donors. Fund Balance is more appropriate than the term equity is it doesn’t work for all types of NPOs. |
| e) Do you agree with the categorization of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? | 100% agree |
| 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? | 83% agree.  Some grant agreements restrict NPOs to recognize unrestricted funds as liability until the fund is being utilized. At the end of the reporting period, any excess of income over expenses from such projects are classified as liabilities than a restricted fund balance. The classification in the exposure draft may not address such variations in grant modality. |
| g) Do you agree that ‘service potential’ should be introduced into Section 2? | 75% agrees  Reason for disagreement is “use of the term service potential is tending to be judgmental and could reduce the intended purpose of enhancing comparability among reports. Economic benefit is often much better than service potential as a recognition criterion and also in the course of measurement. |
| h) Do you agree that the provisions for ‘undue cost and effort’ used in the IFRS for SMEs Accounting Standard should be retained?  h (i) If not, why not? | 87.5% agree  Those which disagree indicated the following reason  There will create a loophole (excuse) for those who wish to evade compliance to the INPAG guidelines by justifying “undue cost and effort”  Instead, provision is advisable to disclose with quality information to manage subjective impacts |
| i) Is the NPO as a reporting entity clear? | 100% agree |
| Question 4: Principles to enable comparability of financial statements |  |
| a) Do you agree with the proposed changes to terminology from the  IFRS for SMEs Accounting Standard? | 100% agree |
| b) Do you agree that comparatives should be shown on the face of the primary statements? | 100% agree |
| b(i) In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? | 100% agree |
| c ) Do the proposals for expressing compliance with INPAG create unintended consequences? | 85.7% agree  Concerns indicated are:  The effort to fully comply will end up to be expensive for NPOs which are largely dependent of funds from donors. The investment it will require to shift again from IPSAS to INPAG (training cost, time cost) for NPOs which were went through a tiresome conversion process from local GAAP to IPSAS will be heavy. It is good at least 2 years grace period is being provided this time around to plan ahead for the change. |
| Question 5: Scope and presentation of the Statement of Financial Position |  |
| a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity- based presentation has been adopted)? | 78% agree  For many NPOs with the smallest portion of non-current assets and almost no non-current liabilities, the classification is not really necessary. |
| b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? | 75% agree  This should not be the case of liabilities as it makes no sense to call a liability by such designation.  It doesn’t seem useful to segregate item by restricted and unrestricted at the level of assets. It is practical to segregate fund balances (equity) by restricted and unrestricted, but not easy for assets and liabilities as they shared cash flows from different sources. |
| **Question 6: Scope and presentation of the Statement of Income and Expenses** |  |
| 1. Do you agree with the name of the primary statement being ‘Statement of Income and Expenses’? If not, why not? | 100% Agree |
| 1. Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not? | 100% Agree |
| 1. Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?   **c (i) If not, what alternative approach would you propose and why?** | 78% Agree  Financial report should be understandable and readable by the users. Users are from diverse sphere of life or profession. Splitting of revenue and expenditure by restricted and unrestricted will make the report bulky and confusing.  It is common that some portion of a grant is allocated to be used for admin expenses, which is unrestricted in other words. Hence, NPOs should split each account by restricted and unrestricted. The process will increase the burden for the accounting and reporting  Concern: (a) In our case, NPOs are allowed by law to own a business entity for income generation. The entity shall be established based on the commercial code and should be separated from the NPO. NPO senior executives will definitely have control on the controlled entity. The NPO is entitled to receive dividend income from the controlled business entity. However, there is a restriction by law that the NPOs are allowed only to use the dividend income for program activities. Use of the dividend for administrative expenses is not permitted.  Recommendation: the term restricted should exclude use "restriction of certain jurisdiction on the use of certain grants for admin expenses", as long as the money is not restricted to be used for specific projects or programs.  It is common in the donor and regulatory environment to have a description of expenses as program and administration expenses. This is very common and useful in Ethiopia to be shown in the face of Statement of Income and Expenses.  (b) There will be a practical challenge to the NPOs to identifying of expenditures as restricted and unrestricted when such expenditures are financed by a matching fund. It recommends the guideline to allow allocation of the shared expenditures between restricted and unrestricted based on the percentage of the matching fund. For example, if the NPO covers 20% from its General Reserve (unrestricted source) and the Donor support 80%, then expenses incurred for the specific activity can be allocated between restricted and unrestricted based on the % of the matching fund contribution.  (C) Though it will be later determined when the definition of revenue is clarified (in the next ED), there are some donor agencies (like USAID) which would like to see grant transfer to be presented as a liability instead of revenue. in our case, NPOs transfer the liability to revenue as they spend the money. There will not be unrestricted fund balance (equity) for such kinds of donors. the balance will remain under current liabilities. Some international donors also have similar practices to their branch offices (like in Ethiopia) which requires transfer (unrestricted transfers) to their branches (which is considered by the jurisdiction as a reporting entity) to record the unused (unspent) transfer balance as a liability. I recommend that such transfers should be recorded as revenue instead of a liability unless there are conditions to be fulfilled  by the NPOs before recognizing as a revenue.  The split can be presented under the notes to the primary statement instead of presenting in the face of the primary statements |
| 1. Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why?   **d (i) If not, what alternative approach would you propose and why?** | 78% Agree  Report starting from expenditure is not conventional. I don't see the benefit of having this option. The Statement of Changes in net asset will explain the possible limitation of the Income and expense statement, when most of the expenses of the reporting period are from revenues received in the previous year (which was reported under equity as restricted or unrestricted fund)  Recommended presentation is as follows:  Income for the period  Expenses  Excess of income over expense for the period  Add: Opening Fund Balance  Closing Fund Balance  The NPO should choose the proper reporting format consistently that gives useful information to its primary uses. |
| **Question 7: Scope and presentation of the Statement of Changes in Net Assets** |  |
| 1. Do you agree with the proposal that there is no Other Comprehensive Income (OCI), and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not? | 100% agree |
| 1. Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why? | 89% Agree  This will increase the analysis burden of the NPOs,Spliiting requires more analysis, chart of accounts and allocations when certain activities are done with multiple sources of fundings. |
| **Question 8: Scope and presentation of the Statement of Cash Flows** |  |
| 1. Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why?   a) (i) If not, why not? | 89% Agree  No enough explanation given for disagreement  When NPOs operating in a profit-making situation and or when additional income recognized from revaluation of fixed assets the statement of change in net asset to be able to present OCI. |
| 1. Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why?   b (i) If not, what alternative would you propose and why? | 75% Agree  The term investment has a connotation that putting money for return of financial rewards. Some of the assets (example vehicles and equipment) are purchased to support the operation. The acquisition is not an end in its own and part of the operation. From the NPO perspective, segregating of cash outflow by operating and investment may not make sense and will be misleading.  Received grants or donations to be reported under receipts / income, until the actual payment for the purchase of the property is made, no treatment as investing activities, |
| 1. Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not? | 89% Agree  Concern: the information provided between the choice of the two methods will be vary for the cash flow from operation. the indirect method doesn't allow to separately present unrestricted  / Restricted grants. (The choice of direct method and indirect method on the conventional Cash flow statement doesn't have such differences. The limitation of the indirect method needs to  be clarified in the document so that it will be considered by the NPOs in the course of policy choice (direct or indirect). I do agree that the indirect method should be available as an alternate option for its simplify for large NPOs.  Here the difference the way ending cash balance is calculated. So, once INPAG is adopted we use accrual accounting. So, using indirect method is the best one i gues. |
| **Question 9: Principles underpinning the notes to the financial statements**   1. Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why? | 88% Agree  Concern  It would be very useful if NPOs disclose the budget execution information (rate of utilization of their annual budget). Under IPSAS 24, reporting entities are required to apply IPSAS 24 if they publicized their annual budget. Most of the NPOs have annual budget but do not publish. Burning rate is a key information to measure the implementation capacity of an NPO. It would be useful if a simplified budget performance information is included in the Notes to the Financial Statement (not as heavy as IPSAS 24) |
| **Question 10: Approach to consolidated and separate financial statements** |  |
| 1. Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why? | 100% of the agree |
| 1. Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what would you propose and why? | 86% agree  No sufficient information provided for disagreement |
| 1. Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why? | 88% agree  Concern  In the case of Ethiopia, NPO may not have another controlled NPOs. But they can own a business entity, which is required to report its financial statements in accordance with IFRS. This is not properly addressed in the Guidance. To minimize the reporting burden, it is recommended to allow consolidation as is and to disclose the fact that the controlled entity’s financial statement is prepared in accordance with IFRS, or to permit them to produce a separate financial statement, where the investment in the business entity to be reflected in the assets, and annually to charge the change in Net asset of the business entity to the income and expense account of the NPO |
| 1. Do you agree with the use of the terms ‘controlling NPO’, ‘controlled entity’ and ‘beneficial interest’ instead of ‘parent’, ‘subsidiary’ and ‘investment’? If not, what would you propose and why?   **d (i) If not, what would you propose and why?** | 99.9% agree  **0.01% Head quarter, Country Office or Branch office to simplify** |
| **Question 11: Approach to accounting policies, construction of estimates and accounting for errors**   1. Do you agree with the updates made to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why? | 83% agree  No clarification provided for the disagreement |
| **Question 12: Scope and content of narrative reporting**  a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why? | 90% agree  Concern is with the timeliness of reports due to the required non-financial reports to be produced. |
| b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why? | 100% |
| c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why? | 100% agree  Concern  There will be a wide range of definition to sensitive information, which will be very open for interpretation. Additional guidance note requires to limit subjectivity |
| 1. Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what alternative would you propose and why?   **d (i) If not, what alternative would you propose and why?** | 89% agree  Concern: Preparation of the narrative report requires the involvement of multiple departments and need collaboration with the finance team that only performances related to the reporting period are included. It might not be easy like the accrual accounting, as some activities could be ongoing across multiple fiscal year. It is good to include additional explanatory note on how to reconcile activity reports against the financial reports and avoiding of duplicate reporting of a single activity across multiple fiscal years.  1% Both financial and narrative better to go live at the same time to enhance support each other for better synergy. |