

INPAG COMMENTS-EXPOSURE DRAFT-2022

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INTERNATIONAL NOT FOR PROFIT GUIDANCE (INPAG)

PART ONE EXPOSURE DRAFT -2022

KISAKU MULUMBA JOBRA'S COMMENTS-*Italicized*

X-General Comments

a) Disagreement with the bench mark or starting point-IFRS for SMEs

I disagreed with using IFRS for SMEs as the basis for this Guideline although it was mentioned that; "although it would have been the best option, it was not pursued because of time and expense." Shall we ever develop one from scratch? Shouldn't we have gone slow but sure? IFRS for SMEs is just IFRS-full but for small entities, hence the shortcomings that we are trying to run away from may not fully be avoided.

*The international frameworks especially the IFRS (full & 4SMEs) were primarily designed to address profit-oriented entities and did not have NPOs in mind when they were being formulated. Their DNA was profit, protecting investors, cash flows etc. The bible says that if the framework (foundation- *Psalms 11:3*) is faulty, how can we rely (credibility) on the rest of the Guideline?*

b) Disagreement with the name-Not for Profit Organizations (NPOs)

- i)** Shouldn't we define them by what they do, their characteristics, by how they are financed, by who owns them or who benefits from them?
- ii)** Why do we call them what they are not for (NPO) rather than what they are for? Why would one call a woman a non-man or women non-men?
 - **Suggestion1**-Profit oriented businesses are called for Profit organizations (NPOs) because their objective is profit. Public sector entities are called public sector because they serve the public sector offering a public service. Why shouldn't Social Benefit or Philanthropic organizations be called a similar name based on whom they serve or the service they offer rather than what they are not for?
 - **Suggestion2**-Why don't we call them 'Social Benefit organizations (SBOs), 'Civil Society organizations (CSOs), or Philanthropic organizations (POs)
 - **Suggestion3**-Public sector financial reporting standards are called IPSAs even when they are not for profit. The word NPOs would therefore be confusing since it does not exclude public entities
 - **Suggestion4**-Non-Profit is a bit negative. Are they Not-for-Profit Organizations (NFPs) or Non-Profit Organizations (NPOs)? These organizations are actually profit depending on how you define profit. From a commercial sense it may mean money, from a social sense it may mean benefit, value addition. Even from a commercial sense, some NPOs engage in businesses for profit to sustain them. Are they non-profit? They are merely non-profit distributing entities.

- **Biblically Isaiah 48:17**, God tells Israel that, “*I am the Lord your God, who teaches you to profit...*” The context of profiting here was being relevant, productive, and value adding. By calling them non-profit would send a wrong signal of them being nonproductive and hence the less attention given to them by many.

c) The overall name of the Project

Is this an Accounting Guideline or Reporting Guideline?

1. A broad characteristics approach to describing NPOs

It is important to be clear about which entities are NPOs, so that the financial reporting guidance meets the needs of users of NPO general purpose financial reports.

- a) Do you agree with the description of the broad characteristics? (Question 2a)

My response

The descriptive approach is ok only that a family tree would make it more illustrative and easy to locate where one falls, the various categories, types and families that fulfill those descriptions.

- b) Does the term ‘providing a benefit to the public’ include all entities that might be NPOs, and if not, what could be changed? (Question 2a)

My response

I disagreed with the name NPO right from initial submissions on the grounds that they are actually profit entities in the sense that they are useful. Secondly, the name is already negative and thirdly that they should be called what they are for and not what they are not for.

- c) Does the term ‘providing a benefit to the public’ include all entities that might be NPOs, and if not, what could be changed? (Question 2a)

Depends on what benefit means-do churches provide benefits or services? When it comes to assets, we are suggesting to value them based on their service potential and not benefit potential.

Would service provision be a better and consistent option?

2. Primary users and their needs of NPO general purpose financial reports

While donors, regulators and other stakeholders with authority will continue to require the reporting of tailored information to them, INPAG can support a reduction in the reporting burden on NPOs through greater consistency in reporting requirements.

Question 3a

Do you agree with the primary users proposed and the description of their needs?

My Comments

I am happy that beneficiaries who had been omitted in the consultative paper have now been included. I agree only that the information needs of each user should be specified and cross referenced to the location where such information has been provided to be sure that their needs have been catered for. This is to fulfill one of the underlying objectives of improving NPO financial reporting that addresses the user needs of primary users.

3. Which NPOs are expected to use INPAG?

Adopting and applying INPAG can provide benefits for all NPOs, the users of their general-purpose financial reports, and other stakeholders. INPAG is intended to be inclusive, with its application at jurisdictional level based on local needs. This is regardless of the size of the NPO or the jurisdiction in which it operates.

(Question 2b)

Do you think it is clear which NPOs are intended to benefit from the use of INPAG?

My response

I don't think it is clear without a factor/description/family tree that would provide an illustration easily. We have many types and classes of NPOs. It would be very important to give the key identification/distinguishing features then a family tree to help readers understand what to call themselves.

4. The reporting NPO and its boundary

INPAG provides Application Guidance to assist in making judgements about the reporting entity and control, as well as Implementation examples.

(Question 3i)

Is the description of a reporting entity clear?

My comment

The principles-based approach is clear only that the preferred principle of control does not fit or rhyme with NPO rhetoric.

I prefer using the word, accounting entity to make it more clear for NPOs that the issue is accountability rather than just reporting for the sake of reporting.

Accountability gives the report more weight of being accountable which would also

require all the forms of accountability, namely; Fiscal, Procedural, Strategic, and Fiduciary.

(Question 10b)-Do you agree that a rebuttable presumption relating to control is useful?

*Whereas it good to glance at definitions in IFRS, it is important to remember the fundamental differences between the two. Borrowing definitions from a measuring tool for financial performance on POs whose objectives, missions and outputs are different may be misleading. The proposal reads in part; “**The proposals require a PO to prepare general purpose financial reports as a single economic entity or other complete set of activities that are related to its purposes**” NPOs are not economic entities (economic decisions), they are social, philanthropic entities.*

Control can be used to establish related parties, stakeholders, decision makers, going concern analysis but not a reporting/accounting entity. I propose that reporting entity be identified by uniqueness in missions/outputs because one of the objectives of this project is to improve comparability. Comparability cannot be based on control but with entities with similar missions and objectives rather than control.

- a) *One can only compare reporting entities if they have the same primary outputs or primary mission.*
- b) *Accountability is based on the mission or outputs that are related to the resources, related expenses for same period. One of the objectives of reporting is to justify NPO’s existence as a result of its performance on its mission/outputs. By defining an accounting entity by their mission or outputs should be the primary criteria for NPOs. This aligns with the IOOI Model for performance measurement of NPOs.*
 - *Other criteria such as; Mission-Single entity reporting; control-For consolidation purposes; Legal requirement- registration and single entity*
 - *Different location, same jurisdiction- Segmental reporting*
- c) *Is the Application Guidance sufficient to apply the control principles and the fundamental characteristics of faithful representation and relevance? (Question 10a and 10c)*

The underlying concept is totally misleading for NPOs. Use of words such as returns in NPO environment is a bit disturbing to some of us and cements my argument that we are hypnotized and nostalgic about FPO terminologies in NPOs.

Faithful presentation and relevance are most aligned to the mission of an entity

- d) **Do you agree with the use of the terms ‘controlling NPO’, ‘controlled entity’ and ‘beneficial interest’ instead of ‘parent’, ‘subsidiary’ and ‘investment’? (Question 10d)**

I would rather use words such as parent, subsidiary than control which is assimilated to capitalism rather than parent which more assimilated to love, care, responsibility, support. The later would be more appealing than the word control which insinuates slavery and exploitation accustomed to capitalism and imperialism, the bedrock of IFRS and IFRS for SMEs.

5. Key Concepts and Principles

The INPAG elements are essentially the same as the IFRS for SMEs Accounting Standard, with a description of equity in the NPO context.

- a) Do you agree with the components of net assets? (Question 3c)

Yes

- b) Do you agree with the inclusion of equity as an element? What type of equity might an NPO have? (Question 3d)

I don't agree with using the name equity because equity means fairness, impartial, or the worth or the equivalent value of something that belongs to shareholders. This again takes me back to foundational issues where we are so inclined to relating our terminology with the profit sector.

The value of a NPO is far beyond the assets. The reason why assets were related to the value of the business (net assets) is because, it is the assets that make cashflows/profits which is the sole interest of shareholders and other stakeholders. To the contrary, NPOs value comprises of net assets plus the relationships and networks that help that NPO to thrive. How shall we value the relationship we have with funders, with beneficiaries, and local councils and politicians?

My conclusion is therefore net assets because that is all we are measuring but we cannot get the equity of an NPO. Secondly, equity can be explained as the residual interest yet stakeholders of NPO are more interested in solving the problem at hand which is in the beneficiaries than in the organization. They are therefore less interested in the residual assets to use the word equity.

6. Basis of information in GPFRs – characteristics

The international financial reporting frameworks are consistent in their description and use of qualitative characteristics of information.

Do you agree with the qualitative characteristics of useful information proposed? (Question 3b)

Again I would like to say that we are being haunted by the nostalgia of IFRS for SMEs. Whereas the stated qualitative characteristics are similar to those in the international frameworks, NPOs should be looked at with another lense. The information is to be USEFUL but the user needs are different because the users are different with different objectives. The major need for most of the NPO users is **accountability**.

Among the fundamental features, I would shift comparability from enhancing to fundamental and add measurability and attribution which are some of the major risks NPO stakeholders face while reading NPO reports. My set would therefore be as follows;

Fundamental	Enhancing
<ul style="list-style-type: none"> • Relevance • Faithful representation • Comparability • Measurability • Attribution 	<ul style="list-style-type: none"> • Verifiability • Timeliness • Understandability

Attribution would help preparers justify to users how the results or performance being reported is attributed to the reporting entity and not another given the complexity of their interventions and activities. Secondly some results may take long to be realized.

7. Fund Accounting

What should I comment on?

Not all jurisdictions will be familiar with fund accounting, and for those that are, the way in which restrictions are considered may vary. Different NPO governance structures may also complicate what is meant by an externally imposed arrangement.

- a) Do you agree with separating funds with and without restrictions? (Question 3e)

Yes I do.

- b) Is the separation of the aggregates of transactions and balances with and without restrictions on the Statement of Financial Position, Statement of Income and Expenses and Statement of Changes in Net Assets sufficient? (Questions 5b, 6c and 7b)

Yes it is but the notes should explain the kind of restrictions that are on the funds for better understandability.

8. Financial statement names and scope

What should I comment on?

The INPAG proposals are more closely aligned with IPSAS. INPAG allows alternative statement titles to be used as long as they are not misleading to the users of the financial statements. However, a naming convention that is commonly understood across **the sector** would be preferable.

General Comments-(i) *Which sector are we referring to here?* (ii) *Why call them financial reports when we have non-financial statements such as the performance report/statements. My advice would be to call them accountability or Philanthropic reports and the performance report included among the major accountability reports of a NPO entity reports given its relevance to decision making and understandability of these entities.*

- a) Do you agree with the title of the income and expenses statement? (Question 6a)

Yes since we are using accrual basis but for those using the cash basis, it would be called the Receipts and Payments Statement.

b) Do you agree with the scope of the Statement of Changes in Net Assets? (Question 7a)

Yes except the use of the word equity rather than reserves.

8. Narrative Reporting

What should I comment on?

Existing international financial reporting frameworks include recommended guidelines rather than mandatory requirements. Only a few jurisdictions mandate narrative information.

a) Do you agree with the principles proposed to underpin narrative reporting? (Question 12a)

*I agree with the principles but let's tighten the principles by emphasizing that such objectives must adhere to the minimum **SMART** axiom. Secondly, for purposes of consistence in such reports, the same objectives should form the bed rock of how charts of accounts, budgets and financial statements are aligned in the various reports. This will help readers relate both the narrative/performance reports with the financial reports under the principles of accountability.*

b) Do you agree with the scope of the minimum mandatory requirement? (Question 12b)

Yes but the qualitative aspects should include measurability and attribution as well.

c) Do you agree with the proposed exemption for sensitive information? (Question 12c)
• Would a two-year transition period assist in overcoming any challenges? (Question 12d)

Yes but such a lee way may render all disclosures sensitive if parameters are not given. Auditors should be given parameters to use to establish such conclusions.

9. Service potential

Service potential may not be a concept that is familiar to many NPOs and the users of their general purpose financial reports. There are also practical considerations about how to measure service potential that will need to be developed in future editions of INPAG.

a) Do you agree that 'service potential' should be introduced into INPAG? (Question 3g)

No I don't agree because of the following reasons;

(i) The underlying assumption and name of NPOs is misleading. These organizations should not be called NPOs but at least Not for Profit distributing entities because some actually make profits for ploughing back into these organizations for sustainability. Secondly, not all NPOs provide services. Some provide goods.

Measuring assets based on their service potential may be misleading; why not goods potential? Thirdly, the biggest assets for NPOs are the people who provide the services given that most services are humanitarian. The values shown on the balance sheet may not reflect the true valuation of any NPO if it is based on assets only. Salaries about 50% of the expenditure hence the importance and value reflection of an entity. Fourthly, we should first see how this service potential is going to be measured and in what units so that we can tread on a journey whose end we know. Without a reliable acceptable measurement model and units, I doubt whether we have the capacity to say yes or no at this time.

13. Additional information

The requirements for grant and donation information on the Statement of Cash Flows will increase disclosure requirements. As sections of INPAG dealing with NPO-specific transactions are developed, the need for comparative information will be reviewed.

- a) Do you agree with the separate presentation of cash donations and grants? (Question 8a)

Yes but an improvement on the length, the total original amount, drawdowns for the period and to date, and amounts outstanding to the end of the Grant period may be relevant for assessing the going concern of an entity.

- b) Do you agree that donations or grants received for the purchase or creation of property, plant, and equipment should be treated as investing activities? (Question 8b)

No because this would not resonate with the service potential terminology that we are hoping to introduce. This word is purely a profit terminology that connotes profit, business or returns which do not fit NPOs. If we have proposed service potential as the value measurement of an asset, then this would be aligned with words such as;

Service facilitation activities, Service facilitation, Service providing/enhancement activities, or otherwise but should capture the word service because that is the value of the assets rather than returns, cash flows that would rhyme with investing activities.

- c) Do you agree that comparatives should be shown for on the face of the primary statements? (Question 4b)

We cannot use the same comparative from IFRS for SMEs! I beg that we get a total mindset shift to the NPOs for which we have labored to fight for. The objective/spirit of comparison is competition which could be healthy or unhealthy. My disagreement is hinged on the following;

- (i) *Relevance-The mission of Profit organizations is profit. Therefore they do whatever they do to make profits. Some of the activities may be to frustrate, buy out, suffocate competitors to win bigger markets and gain wider acceptance/market. NPOs on the other hand would want comparatives to assess accountability for resources. One of the parameters for accountability is a budget or a criteria. The criteria set for a NPO is the budget plus outputs set out in a log*

frame. To the extent of accountability rather than profitability, one would compare with the approved financial and operational budgets.

- (ii) *Differing goals/ outputs- Whereas the goal of a profit entity may be profit and only profit from year to year, the goals/outputs/ outcomes of NPO may be different every year since different work plans, donors, locations etc. NPO could incur more expenses on travel based on different planned areas to reach out. It could hire a consultant to accomplish something in one season and not in another; could hire more staff and lay them off due to different intentions.*

For this reason, prior period figures would only serve as a growth comparative rather than performance comparative. I would strongly recommend that we use budgets that determine management performance for a period rather than prior figures.

14. Compliance with INPAG

What should I comment on?

An unreserved statement of compliance provides certainty about which standards have been used in the NPO's financial statements. Jurisdictions may wish to adopt INPAG in stages, which may mean compliance can't be asserted, even though transition is under way.

- a) Do the proposals for expressing compliance with INPAG create unintended consequences? (Question 4c)

Won't this discourage transition? In order to encourage adoption why don't preparers mention the standards not complied with plus the implications to the overall presentation just as it is for IAS1?

IAS 1-Should cease to state that it applies to all entities including NFPO. All NPO statements in the IFRS should be eliminated and users referred to the INPAG otherwise we shall have a contradiction of which frameworks or standards to use.

The statement is in line with IAS-Para 11 that state that FS should not be described to have complied with IFRS unless they comply with all requirements

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