



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

International Non-profit Accounting Guidance (INPAG)

Exposure Draft 1 Response template

Exposure Draft 1 can be found here: www.ifr4npo.org/ed1. Please use this form to record your responses to the Specific Matters for Comment.

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 12 question areas. You do not need to answer all questions and can choose to answer as many or as few as you wish.

Responses must be received by **31 March 2023 and must be in English**.

Please contact info@ifr4npo.org if you have queries.

Responses can be submitted to ifr4npo@cipfa.org or through the website at www.ifr4npo.org/have-your-say



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Respondent information*:

First name:	Moulaye	Organisation: (who do you work for)	Humentum
Last name:	Camara	Response: please choose from: <ul style="list-style-type: none"> • on behalf of my organisation or • as an individual 	Organisation
Email:	moulaye.camara@humentum.org	Country: (this should be the country in which you are based)	South Africa
Position:	Technical Director, Funding & Financial Systems	Professional interest: please choose from: <ul style="list-style-type: none"> • preparer, • auditor, • standard setter, • professional accounting organisation, • regulator, • donor, • academic, • civil society, • user of NPO services, • other (please state) 	Other (NPO Network)


Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	Agree
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9 March 2023

I am glad to submit these comments on INPAG Exposure Draft 1 on behalf of Humentum. We are incredibly excited about the INPAG guidance, and its potential to further our mission of a more equitable, resilient and accountable sector. We consulted with stakeholders in the drafting of these comments, specifically African NGOs, members of our Finance Grants and Compliance network, and our CFOs group, as well as with our network of Associate consultants.

Our response is can also be downloaded in word format [here](#), for the ease of others who may wish to edit and submit on their own behalf.

DocuSigned by:

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Moulaye Camara

Humentum Technical Director, Funding & Financial Systems

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Specific Matters for Comment

Question 1: General comments	The Guidance is split into Sections that mirror the structure of the <i>IFRS for SMEs</i> Accounting Standard. INPAG has 3 volumes; (i) authoritative guidance (G) and application guidance (AG), (ii) a basis for conclusion that explains the reasons for the approach taken (BC) and (iii) non-authoritative implementation guidance (IG).	
	References	Response
1a) Is the structure of INPAG helpful? If not, how could it be improved?	GP22-GP24	Yes, the fact that it follows the same structure as IFRS for SMEs is helpful. Placing Narrative reporting at the end is logical.
1b) 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.		<p>We would like to make the following points, which are not linked to any specific question (SMC):</p> <ol style="list-style-type: none"> 1. Users expectations with respect to financial result 2. Statement of Income and Expenses and Statement of Changes in Net Assets 3. Transfers between funds 4. Statement of financial position <p>1. Users' expectations with respect to financial result Our experience is that research about earnings management by NPOs in Australia holds true in other parts of the world. Many users expect to see a near zero 'bottom line' on NPO income statements. NPOs that show large positive or negative bottom line figures may be penalized in terms of taxes, privileges associated with 'non-profit' status, reduced donations or perception of mismanagement or poor financial health.</p> <p>This expectation of users is not realistic, as the economic reality of NPOs is that the timings of income and expenditure do not always match, due to the non-exchange nature of many transactions, ie donations given in one year could be spent the next. The terms 'surplus' and 'deficit' are problematic as described in Qb6 below, so the financial statements need to be structured and presented in a way to minimize this risk of misinterpretation.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 1: General comments

1b) Do you have any other comments (contd)

2. Proposals with respect to primary financial statements

The current proposal is for the Statement of Income and Expenses to stop at surplus/deficit, because during consultation, stakeholders expressed that this financial result was an important number for users. But the reasons they find it important and the information they hope to deduce from it may be flawed given evidence cited above.

It seems that income recognition proposals (yet to come in ED2), based on conceptual principles in INPAG ED1 Section 2, could result in fluctuating surplus / deficits, and the possibility of different financial results on different funds (eg a surplus on funds without restrictions and a deficit on funds with restrictions). One key way to mitigate the risk of misinterpretation is explanation in the narrative report. In addition, we propose a different way of structuring the primary financial statements.

We believe it would be better to present the surplus or deficit (or our preferred term 'financial result') in the context of fund balances, by merging the Statement of Income and Expenses with the Statement of Changes in Net Assets. This approach is permissible under IFRS for SME and is the approach taken in the UK SORP, which has been found beneficial.

	Total 202X
Income	
Expenses	
Realised Gains/losses	
Transfers between funds	
Financial result (inc - exp +/- gains +/- trfs)	
Unrealised Gains/losses	
Movement in funds	
Opening fund balance	
Closing fund balance	



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 1: General comments

1b) Do you have any other comments (contd)

3. Transfers between funds

'Transfers between funds' are proposed to be located on the Statement of Changes in Net Assets, after the financial result, rather than on the Statement of Income and Expenditure, to arrive at the financial result.

We are aware that it is common for organisations to use the 'transfer between funds' line to reflect a contribution from a funded project to the support costs (or indirect / overhead costs) associated with running that project. This may be shown as a single line transfer out of restricted, into unrestricted.

We propose that the transfer between funds line be moved before the calculation of the financial result for the year, to avoid potentially misleading figures for the financial result split between funds with and without restrictions.

4. Statement of financial position

We also think that mandating, or strongly recommending the use of the vertical balance sheet format rather than the horizontal balance sheet format (either are permitted under FRS for SME), is helpful in creating meaningful links between the statement format proposed above, and the statement of financial position. This could also be done by ensuring that most of all the illustrative examples use the vertical balance sheet format. (See our response to Question 3c)



<p>Question 2: Description of NPOs and users of INPAG</p>	<p>This Section sets out a broad characteristics approach to identifying those entities to whom INPAG might apply. This descriptive approach is used rather than a single definition, given the diversity of NPOs. Although an entity might be described as an NPO for the purposes of INPAG based on these characteristics, INPAG is not intending to apply to very small NPOs, where cash-based financial information might be sufficient, or those NPOs that meet the definition of public accountability in IFRS-based standards.</p>	
	<p>References</p>	<p>Response</p>
<p>a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs?</p>	<p>G1.2-G1.5</p>	<p>The three characteristics are comprehensive. The phrase 'Providing a benefit to the public' is potentially misunderstood as providing a benefit to all or a large section of the public, whereas many NPOs may serve a particular section, such as people in a specific area, with a specific disease, or conservation of a particular habitat or species.</p> <p>The phrase makes sense when seen in contrast to 'private benefit' but its not self-evident when standing alone. It is also infers the concept of the 'public sector' and could lead to confusion with respect to IPSAS.</p> <p>An alternative to consider: NPOs have the primary purpose to deliver social good, (for the benefit of sections of society or the environment.)</p>
<p>b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?</p>		<p>It is clear that INPAG is intended for NPOs that need to prepare accrual basis general purpose financial reports to meet the needs of primary users. However it is not clear which factors might contribute to an NPO falling into that category.</p> <p>The financial statements of many NPOs are not published or seen by anyone other than the board, auditors, existing or specific prospective donors, and sometimes regulators, which renders the 'needs of primary users' a very academic notion.</p> <p>Some NPOs that ought to prepare accrual-basis financial reports also 'need to' prepare cash-basis financial reports for donors. There is a risk that such NPOs may misinterpret the intention. There is also a risk that jurisdictions could decide that all NPOs need to prepare accrual basis financial reports, which could have unintended consequences of creating an unnecessarily onerous burden on micro-NPOs.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 3: Concepts and pervasive principles	<p>This Section sets out the concepts and principles that underpin the accounting requirements for NPO transactions and events. It describes a reporting entity for the purposes of INPAG and provides additional guidance about the sometimes complex structures used by NPOs to achieve their objectives. It identifies the primary users of financial statements and reports, their information needs and the characteristics of useful information. It also describes the elements of financial statements and how net assets are derived. It introduces the categorisation of accumulated funds into funds with restrictions and funds without restrictions. This Section is most likely to be read by standard setters, auditors, technical accounting advisors and financial accountants.</p>	
	References	Response
<p>3a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?</p>	<p>G2.3-G2.12</p>	<p>We believe it is vital and overdue to see that the needs of ‘service users’, (ie those that benefit from the activities) of the NPO are given prominence as primary users, alongside providers of finance and those that represent them. However, the practical reality in many country contexts, is that such ‘service users’ may not actually get access to the information. Where the purpose of the organisation relates to the welfare of the natural environment generally or globally, or conservation of a specific species, there may be no specific human ‘service users’ of the NPO.</p> <p>Board members are excluded as primary users because they have the rights to request any information they would like. We propose that they be listed as primary users because:</p> <ol style="list-style-type: none"> 1) They serve in a fiduciary capacity, as trustees, on behalf of ‘service users’, according to the NPO’s mission. 2) In many instances board members are literally the ONLY users of an NPO financial reports - where GPFRs are not required to be filed with a regulator or published. 3) The lack of financial acumen and capacity of board members in NPOs around the world is seen as a common governance challenge. Most board members serve in a voluntary capacity, so those without personal financial resources may struggle to give time. The theoretical authority of board members to request any reports they wish is not exercised in practice in contexts where board members frequently lack the time or expertise to do so, more particularly so in the absence of internationally applicable guidance. 4) The INPAG proposals do in fact meet the needs of board members, so adding them as primary users is not likely to result in changes to the content.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 3: Concepts and pervasive principles

3b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why? G2.13-G2.32, AG2.1-AG2.3 **Yes**

3c) Do you agree with the components of net assets? If not, why not?

G2.73,
Diagram
2.2

We understand 'Net Assets' in your question to be the heading given to the section of the balance sheet equivalent to 'Equity and Reserves'. I.e, those credit balances that are not liabilities. We agree with the proposed components as the balance of funds with restrictions and funds without restrictions.

We find the heading itself unhelpful, since 'Net Assets' is a net debit. In the vertical balance sheet format, net assets is the result of assets minus liabilities on the top of the balance sheet, which should come to the same numerical value as the bottom half of the balance sheet, but they are conceptually different. As an alternative, we propose the heading 'Fund balances', as shown below.

Vertical presentation (Top equals bottom | $A - L = F$ | assets minus liabilities equals funds)

	\$
Assets	
Liabilities	
Net assets	X
Fund balances	
Funds with restrictions	
Funds without restrictions	
Total fund balances	X

Horizontal presentation (Left equals right | $A = L + F$ | assets equals liabilities plus funds)

	\$		\$
Assets		Liabilities	
		Fund balances	
		Funds with restrictions	
		Funds without restrictions	
TOTAL	Y	TOTAL	Y



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 3: Concepts and pervasive principles		
<p>3d) 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?</p>	<p>G2.141, AG2.6- AG2.9</p>	<p>Yes, because there are some organisations around the world that do have nominal amounts of equity, which is materially different from other types of transaction.</p> <p>However, its prominence in the other sections of the INPAG text and illustrative examples could undermine the credibility of INPAG as a whole, if equity is seen to be of minimal relevance to the sector. We recommend omitting equity from the main section text and examples, and instead providing an explanation in one place of what to do in the rare cases that an organisation does have equity.</p>
<p>3e) 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?</p>	<p>G2.74- G2.75, AG2.4- AG2.5</p>	<p>Yes. Humentum’s recent research has demonstrated that appropriate levels of general reserves or unrestricted funds are an important indicator of an NPO’s financial health, sustainability and resilience in the face of shocks. The majority of NPOs in the study had insufficient levels of reserves.</p> <p>We welcome the proposal in ED1 that includes the term ‘funds without restrictions’ within the analysis of the net assets on the balance sheet.</p> <p>This information is useful to a range of readers of the financial statements:</p> <ol style="list-style-type: none"> 1) Funders – interested in the overall financial health of a potential or current grantee 2) Governors – to track progress in achieving sufficient reserve levels 3) Regulators – to check and protect against excessive accumulation of reserves to the detriment of public benefit spending 4) Auditors – as a factor in consideration of going concern <p>However, we believe that the proposal does not go far enough, because the figure featured prominently on the balance sheet will be inclusive of non-current (fixed) assets, which could be misinterpreted by users and have unintended consequences.</p> <ul style="list-style-type: none"> • Inclusion of non-current assets within the ‘funds without restrictions’ figure could mask negative net current assets without restrictions, which could have implications for risk and going concern. • Trustees, funders or auditors may have misplaced confidence about the financial position. • Regulators may misjudge the inflated figure and deem it excessive, risking removal of privileges or status.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 3: Concepts and pervasive principles

3e) Contd	G2.74- G2.75, AG2.4- AG2.5	<p>Humentum’s research references ‘the number of days worth of reserves’ which is an commonly used and intuitive way to assess the reserve levels (excluding fixed assets) relative to annual expenditure. It is also used in recent research by Edge. Although NPOs are at liberty to calculate the figure without non-current assets for inclusion and commentary in the narrative report should they wish to, this is not recommended or mandatory. The fact that non-current assets on the balance sheet is not split out between those with or without restrictions in the notes, means that a user wishing to calculate this important ratio would not be able to access the information needed to do so.</p> <p>We propose separating the disclosure as follows, applying the term ‘general sustainability reserve’, which has positive inference. The guidance should explain how this is calculated, namely total funds without restrictions less non-current assets without restrictions, and disclosed separately from any other amounts internally designated for specific purposes.</p> <p>Funds without restrictions:</p> <table data-bbox="750 893 1355 997"> <tr> <td>General sustainability reserve</td> <td>X</td> </tr> <tr> <td>Internally designated funds</td> <td>X</td> </tr> <tr> <td>Other funds without restrictions</td> <td>X</td> </tr> </table>	General sustainability reserve	X	Internally designated funds	X	Other funds without restrictions	X
General sustainability reserve	X							
Internally designated funds	X							
Other funds without restrictions	X							



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 3: Concepts and pervasive principles		
3f) 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?	G2.142, AG2.8-AG2.9	Yes, we agree with transferring such amounts to equity prior to distribution.
3g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?	G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122	<p>Yes, service potential is a crucial concept for justifying the holding and measurement of assets that have value for achieving the mission of the NPO, even if they do not generate revenue.</p> <p>However, the term 'service potential', while taken from IPSAS, is not readily understandable. It makes sense when seen in contrast to 'revenue generating potential', but its meaning is not self-evident when read alone.</p> <p>Alternatives worthy of consideration include 'mission potential', 'social potential', 'potential to deliver social good' or 'public benefit potential' (but see above for earlier stated problems with the term public benefit).</p>
3h) Do you agree that the provisions for 'undue cost and effort' used in the <i>IFRS for SMEs</i> Accounting Standard should be retained? If not, why not?	G2.33-G2.36	Yes
3i) 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?	G2.43-G2.49, AG2.10-AG2.24.	Yes



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 4: Principles to enable comparability of financial statements	This Section provides the principles behind the development of financial statements, including consideration of whether an entity is a going concern. It looks at the ability to compare financial statements and sets out the principles of comparability and consistency. Comparatives are identified as being necessary for financial statements and narrative reports. This Section also looks at the ability to express compliance with INPAG. It also considers NPO-specific terminology.	
	References	Response
a) Do you agree with the proposed changes to terminology from the <i>IFRS for SMEs Accounting Standard</i> ? If not, what would you propose and why?	Sections 3-10	<p>The term 'entity' is replaced by 'NPO' throughout. We are not sure that this is necessary. There are many types of for-profit entity and many types of non-profit entity. The term 'reporting NPO' rather than 'reporting entity' is particularly awkward.</p> <p>Our thoughts on the terminology revisions proposed for parent, subsidiary, investment, profit and loss, are covered in other questions.</p>
b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose and why?	G3.14, G3.19, AG3.9- AG3.11, BC5.11	<p>Yes, we agree that prior year comparatives should be shown on the face of the primary financial statements.</p> <p>With respect to the Statement of Income and Expenses, those we consulted expressed concern that 6 columns of numbers was excessive and would create noise that distracts from the main story that the statement is attempting to tell.</p> <p>We propose that the face of the statement include the totals only, while the full 6 column version be shown in the notes. It is not useful to show the comparatives alone, since as the name implies, it is most useful to see the information side by side, without having to flick backwards and forwards between printed pages or different sections of an on-screen document.</p>
c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?	G3.3-G3.7, AG3.3- AG3.5	<p>None that we can see.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 5: Scope and presentation of the Statement of Financial Position	<p>The Statement of Financial Position has proposals that the aggregate of the fund balances for funds with restrictions and funds without restriction and has associated disclosures. This statement mirrors those used in other international standards, including how assets and liabilities are classified, but has NPO-specific terminology.</p>	
	References	Response
<p>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)? If not, why not?</p>	<p>G4.5-G4.9, AG4.4</p>	<p>Yes, to be consistent with other sectors. We have not identified any NPO-specific reason to have a different treatment.</p>
<p>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? If not, which categories of asset and/or liability should be split?</p>	<p>G4.13-G4.14, AG4.5-AG4.7</p>	<p>We agree that there is no need to split all assets and liabilities between funds.</p> <p>However, as mentioned in question 3e above, we propose that splitting non-current (fixed) assets between those with and without restrictions, is important for deriving a meaningful figure for general reserves, which is an important concept in NPO financial sustainability.</p> <p>We agree that the face of the balance sheet should be kept free of such analysis, with the split being shown in the notes.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>Question 6: Scope and presentation of the Statement of Income and Expenses</p>	<p>This Section is retitled from the equivalent Section in the <i>IFRS for SMEs</i> Accounting Standard to be more relevant for NPOs. References to ‘profit and loss’ are replaced with ‘surplus and deficit’. A key element of the presentation of this statement is that revenue and related expenses are split between those that have been received with restrictions and those that haven’t.</p> <p>Some income and expenses are proposed to be part of the Statement of Changes in Net Assets (see question 7).</p>	
	References	Response
<p>6a) Do you agree with the name of the primary statement being ‘Statement of Income and Expenses’? If not, why not?</p>	BC5.1-BC5.5	Yes
<p>6b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?</p>	G5.5, BC5.6	<p>We agree the terms ‘profit and loss’ are not appropriate. The terms ‘surplus and deficit’ are also problematic however. Surplus implies ‘more than you need’ and Deficit implies ‘not enough’.</p> <p>A reported ‘surplus’ may in fact indicate:</p> <ul style="list-style-type: none"> • Expenditure on assets, not included in expenses • Generation of unrestricted reserves crucial for financial sustainability • Timing of restricted grants, received this year to be spent next year <p>A reported ‘deficit’ may in fact indicate:</p> <ul style="list-style-type: none"> • Previous expenditure on assets, now showing as depreciation • Use of previously generated reserves to meet a certain need or priority • Timing of restricted grant, received last year but spent this year <p>We do not have any better alternatives to propose in place of the words ‘surplus’ and ‘deficit’. However, we do propose the use of the term ‘financial result’ in place of ‘surplus or deficit’ or ‘surplus/deficit’. This is akin to the term ‘bottom line’ which is conceptually easy for users to engage with.</p> <p>See our related comments to Question 1b above.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 6: Scope and presentation of the Statement of Income and Expenses

6c) 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?

G5.3, AG5.4-AG5.6, BC5.9-BC5.12

Yes, we find the columnar approach helpful. However some of our stakeholders were of the view that it would be more helpful to have just the total income and total expenses split by column rather than every single line.

This could greatly reduce the number of figures on the statement, drawing the users eyes to the most significant ones. The breakdown could be shown in the notes.

Statement of Income and Expenses

	With Restrictions	Without Restrictions	TOTAL 20X1	TOTAL 20X0
Income	X	X	X	X
Expenses	X	X	X	X
Financial result from operating activities	X	X	X	X
Gains and losses	X	X	X	X
Financial result	X	X	X	X

6d) 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?

Implementation guidance

Yes.

The main focus of an NPO is its mission, and its activities. These are most closely correlated to its costs. Those costs are financed from various income sources. Hence expenses at the top is a meaningful alternative in an NPO context,

It is analogous to the vertical presentation of the balance sheet, where top (assets less liabilities) answers the question 'what have you got?' while the bottom answers the question 'where did it come from?'



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 7: Scope and presentation of the Statement of Changes in Net Assets	This statement is derived from the Statement of Changes in Net Equity included in the <i>IFRS for SMEs</i> Accounting Standard. It includes a number of transactions that under the <i>IFRS for SMEs</i> Accounting Standard would be part of Other Comprehensive income.	
	References	Responses
a) 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?	G6.2, BC5.13-BC5.16, BC6.1-BC6.5	Yes. As long as the figures are shown in one statement or another it is not of great consequence.
b) 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?	G6.4	Yes. This gives the clearest presentation and strengthens the link between the income statement and balance sheet.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 8: Scope and presentation of the Statement of Cash Flows	This Section includes disclosures to highlight NPO specific transactions, such as revenue to fund the purchase of property, plant and equipment. There are no changes to the fundamentals of the cash flow from the <i>IFRS for SMEs</i> Accounting Standard, with both the direct and indirect methods of producing a Statement of cash flows permitted.	
	References	Responses
a) Do you agree with the separate presentation of cash donations and grants on the face of the statement?	G7.4 a)	Yes
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? If not, what alternative would you propose and why?	G7.5 b)	<p>Even though the idea of ‘social investment’ is becoming more common, when seen in the context of the cash flow statement, the term ‘investing’ does imply the intention of financial return.</p> <p>When an NPO spends money on assets, for example a truck to deliver aid, equipment to carry out scientific research, or a building to offer medical services, it is conceptually consistent that the ‘investment’ will support the NPO to deliver its mission over a number of years in the future. But restricted donations for capital purposes, such as motorcycles for project officers to visit various project locations, or office equipment and a generator for a project field office, do not fit so well. The term ‘investing activities’ does not sit comfortably in the context of donor funded, project level capital expenditure.</p> <p>We propose that under the Cash Flow Statement heading ‘Investing Activities’ there be two sub headings, (which should be omitted if not needed).</p> <ul style="list-style-type: none"> • Investing for financial return • Social purpose non-current assets (being a plainer English version of ‘PPE with service potential’)
c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?	G7.7-G7.9	Yes. The indirect method is less onerous to prepare, being (usually) derivable from the other statements and notes. The direct method could give valuable information about income, expenses and capital expenditure on a cash-basis for those organisations that would benefit from preparing it.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 9: Principles underpinning the notes to the financial statements	This Section sets out the general requirements for disclosures and the notes to the primary financial statements. There are no known NPO specific issues for this Section and modifications made to align with other Sections.	
	References	Responses
a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?		Yes we agree.

Question 10: Approach to consolidated and separate financial statements	This Section sets out the principles to identify control and provides additional guidance about how control applies to NPOs. It also includes a simplification for control in a number of defined circumstances (a rebuttable presumption). It provides guidance on less common situations when consolidation might not be appropriate. The Section uses NPO-specific terminology.	
	References	Response
10a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?	AG9.1-AG9.14	Yes, in the main. It does not however address the situation where a particular individual, such as a founder, wields more power or control in practice than their single 'vote' might imply on paper.
10b) 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?	G9.17	Yes. The term 'rebuttable presumption' could be replaced with an easier english term such as 'refutable assumption'.
10c) 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?	G9.21-G9.22, AG9.17-AG9.19	Yes



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 10: Approach to consolidated and separate financial statements		
10d) 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?	G9.7, G9.24	Yes
Question 11: Approach to accounting policies, construction of estimates and accounting for errors		
This Section sets out the requirements for disclosure and approach to accounting policies, estimates and errors. There are no known NPO specific issues for this Section with modifications made to align with other Sections.		
	References	Responses
a) Do you agree with the updates 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?		Yes



Question 12: Scope and content of narrative reporting	This is a new Section that has been written specifically for NPOs. It sets out the principles for narrative reporting, including the qualitative characteristics of the information to be included in the reports. It mandates the requirement for financial analysis and performance information to be included in general purpose financial reports. It leaves as optional any additional information that an NPO may wish to report on, such as sustainability reporting. It includes an exception, where information might be prejudicial to the operation of the NPO and the safety of its staff and volunteers.	
	References	Responses
12a) Do you agree with the principles proposed to underpin narrative reporting?	G35.3- G35.7	Yes, they are very well drafted.
12b) 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?	G35.8- G35.19, G35.30, AG35.2- AG35.13	<p>Yes, for the time being. Much as we would like to see reporting about climate and sustainability given its unparalleled importance, we do acknowledge that the introduction of onerous requirements too soon may jeopardise adoption in the short term. Better to get more countries, donors and organisations adopting INPAG first, then introduce this crucial element at an ambitious pace after that.</p> <p>This will also enable the dust to settle on ESG reporting in corporate and public sectors, so that the project can draw on that work, bringing consistency where appropriate and making sector specific adaptations as needed.</p> <p>The NPO sector is considerably smaller than the other two sectors globally, and it makes more sense to piggy pack on that work as soon as possible.</p>
12c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why?	G35.7	<p>Yes.</p> <p>We believe this transparency about activities is vital, and also needs to be supported by better systems for the publishing of accounts for scrutiny by civil society. We also agree that there are situations where disclosure of certain sensitive information about activities could be harmful to individuals or the organisation, and we agree with the proposal that an NPO may take advantage of an exemption, and exclude sensitive information from its report.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 12: Scope and content of narrative reporting		
12c) continued	G35.7	<p>The proposal that an NPO disclose the fact that it has taken advantage of this exemption (assuming the excluded information is material) is both important and problematic.</p> <p>It is important because users could be misled if they assume the information in the narrative report to be complete in providing complementary information to that in the financial statements. The omission of information about certain activities may lead a reader to assume that the NPO had provided its remaining services at a high cost, or inefficiently.</p> <p>It is problematic for two reasons:</p> <ul style="list-style-type: none"> • The exemption can be abused by NPOs. So called ‘briefcase NPOs’, that are merely vehicles for money laundering for example, could take advantage of the exemption, which would deny regulators the information needed to provide effective, good-faith regulation services. • The exemption could be abused by users. If an NPO is ‘suspected’ of carrying out certain sensitive activities, which may be unpopular with certain sections of society, or with the government, and they disclose that they have taken advantage for the exemption to not disclose sensitive activities, this could be taken as confirmation, or indeed serve as notification, that the NPO is doing such activities. This could be an active trigger to harmful actions, which would be worse than no reporting at all. <p>While we appreciate the challenges, we are not able to propose a better alternative.</p>
12d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges?		<p>Yes. This provides the space for NPOs who will have a steep learning curve on the financial reporting side, such as the introduction of fund accounting and or accrual basis accounting, to get a handle on that, before moving to narrative reporting. Any jurisdiction that feels its NPOs should be able to comply is at liberty to mandate early adoption. Any NPO that feels it would like to take advantage of early adoption is also at liberty to do so.</p> <p>It is better to get more countries and organisations on board, at a rate they can manage, than demand too much too soon and risk low adoption rates.</p>