



**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](http://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](mailto:info@ifr4npo.org) if you have queries.

Responses can be submitted to [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org) or through the website at [www.ifr4npo.org/have-your-say](http://www.ifr4npo.org/have-your-say)



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**Respondent information\*:**

<b>First name:</b>	Soraya	<b>Organisation:</b> (who do you work for)	Inyathelo-South African Institute for Advancement
<b>Last name:</b>	Joonas	<b>Response:</b> please choose from: <ul style="list-style-type: none"> <li>on behalf of my organisation or</li> <li>as an individual</li> </ul>	On behalf of my organisation
<b>Email:</b>	soraya@inyathelo.org.za	<b>Country:</b> (this should be the country in which you are based)	South Africa
<b>Position:</b>	Finance Director	<b>Professional interest:</b> please choose from: <ul style="list-style-type: none"> <li>preparer,</li> <li>auditor,</li> <li>standard setter,</li> <li>professional accounting organisation,</li> <li>regulator,</li> <li>donor,</li> <li>academic,</li> <li>civil society,</li> <li>user of NPO services,</li> <li>other (please state)</li> </ul>	Preparer Civil society Other: NPO Advocacy for an enabling environment NPO Civil Sector Convenor Capacity Building in the Civil Society Sector in order to attract resources and build financial sustainability

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	<b>Tick boxes</b> Agree
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This document has been designed purely to enable feedback to Exposure Draft 1. Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed. Personal information will only be held for the purposes of developing INPAG. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org)



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### Specific Matters for Comment

<b>Question 1: General comments</b>	<p>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).</p>	
	<b>References</b>	<b>Response</b>
<p>a) Is the structure of INPAG helpful? If not, how could it be improved?</p>	<p>GP22-GP24</p>	<p>Yes</p>
<p>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.</p>		<p>Attempting to regulate or reflect truer statements for non-profits based on their mission driven objectives as opposed to a profit performance based financial story, is as much needed development. Currently non-profit statements in terms of 'surpluses' and 'deficits' are being misinterpreted without further explanation.</p> <p>In presenting these comments below from a non-profit practitioner perspective infrastructure nonprofit organisation to the sector, there are considerations around the implications for non-profits themselves to institute such additional measures being presented in terms of the time, additional funding and expertise this will require. Although a good move, this will need a reasonable transition time. While countries will need to consider adoption of this, international donors may adopt this sooner meaning some non-profit entities may not be ready. This is just a consideration.</p>
<b>Question 2: Description of NPOs and users of INPAG</b>	<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.</p>	



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	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.	
	<b>References</b>	<b>Response</b>
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? If not, what would you propose and why?	G1.2-G1.5	<p>The term 'providing a benefit to the public' may create confusion in some environments. For example in South Africa, a Public Benefit Organisation (PBO) is a specific tax designation for prescribed 'Public Benefit Activities' which enables certain Non-profits (not all) tax exemption status and the right to issue tax relief certificates (in some cases). Therefore "public benefit" is directly related to a tax status in this context.</p> <p>Again, in the SA context, an NPO as defined, is a non-profit (which may be a legal entity of a NonProfit Trust, NonProfit Company or a Voluntary Association) that voluntarily registers with the government as an NPO. This is not compulsory. Therefore not all nonprofits are termed NPO's in South Africa. An NPO is a voluntary registration and known as such.</p> <p>Many non-profits are not required to produce financial audited statements depending on their Public Interest Score and/or their founding documents but choose to do so to attract funding.</p> <p>Therefore, the terminology could create more confusion in a South African context.</p> <p>Perhaps, consider an alternative although we realise it is difficult to find a common global term in considering every domestic status.</p>



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<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>While some standardisation is appreciated, there are some that fall through depending on domestic legislation. For example not all NPO's are mandated to prepare financial audited statements for various reasons. When using this as a global standard, global donors may make this approach as a mandatory standard for all grantees which may be contradictory to local requirements and could possibly present a dilemma in the shortterm.</p>

<p><b>Question 3: Concepts and pervasive principles</b></p>	<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.</p> <p>This Section is most likely to be read by standard setters, auditors, technical accounting advisors and financial accountants.</p>	
	<p><b>References</b></p>	<p><b>Response</b></p>
<p>a) 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>Agreed</p>



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b) 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	Agreed
c) Do you agree with the components of net assets? If not, why not?	G2.73, Diagram 2.2	<p>Have sometimes found the term 'net assets' a struggle to reconcile with the context. These assets in a non-profit context are often cash which is designated but sits under the heading of 'net assets'.</p> <p>The term 'restricted' and 'non restricted' also leads the latter to imply unrestricted funds are there to use at will. These are reserve funds that have different strategies and some of these are in fact restricted for longer term sustainability.</p> <p>An option could be:</p> <ol style="list-style-type: none"> <li>1. Reserve Funds (with a note determining operational reserve, sustainability reserve etc outlining shorter term and longer term earmarking of these funds) which indicates that some reserves are in fact restricted in the longterm</li> <li>2. Designated Funds</li> </ol>
d) 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?	G2.141, AG2.6-AG2.9	Yes
e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and	G2.74-G2.75, AG2.4-AG2.5	<p>Yes-comment made above</p> <p>Even within 'unrestricted funds' there could be some 'restriction' in terms of what these funds are 'earmarked' for within reserves. This should also be described. See suggestion under c) above.</p>



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<p>deficits? If not, what would you propose and why?</p>		<p>For increased transparency, there should be a way for non-profits to disclose the size of their reserves and the purpose for such but this could be debatable as some feel they are penalized for having this kind of financial sustainability while others are being required to show this kind of security and resilience to combat financial risk to donors. There is education to be done on the meaning and security of a reserve and the negative connotation around this with some stakeholders-- before this kind of disclosure is mandated.</p>
<p>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? If not, what would you propose and why?</p>	<p>G2.142, AG2.8-AG2.9</p>	<p>Agreed</p>
<p>g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?</p>	<p>G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122</p>	<p>Would be keen on understanding more before commenting</p>





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h) 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
i) 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

<b>Question 4: Principles to enable comparability of financial statements</b>	<p>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.</p>
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	References	Response
a) Do you agree with the proposed changes to terminology from the <i>IFRS for SMEs</i> Accounting Standard? If not, what would you propose and why?	Sections 3-10	The terminology issue see 2a)
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 but only 2 columns on face of financial statements and the rest can be in the notes Does this have an impact on an organisation on a non-profit if they appoint a different auditor from the previous year. If the auditor is needing to give an opinion on both years, what does this mean for the non-profit. This could become very costly and impractical?</p> <p>We do not agree with including budget amounts as a comparative. This will become a futile exercise for many non-profits whose budgets need to be constantly evolving throughout the year and affected by continually changing exchange rates and complex multi donor funding line allocation system which will give little valuable indication of performance in a non-profit context. Performance is not measured by the bottom line for non-profit, nor is it measured by expenses vs budgets as programmes expand and contract and consequently variable operational costs in relation to this at times.</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	We don't think so

<b>Question 5: Scope and presentation of the Statement of Financial Position</b>	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
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	used in other international standards, including how assets and liabilities are classified, but has NPO-specific terminology.	
	<b>References</b>	<b>Response</b>
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?	G4.5-G4.9, AG4.4	Yes With the definition: An NPO shall classify an asset as current when: b) it holds the asset primarily for the purpose of its operating activities This could be misinterpreted for large fixed assets that are held for the purpose of operating activities. Assumed, they should still be classified as non-current.
c) 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?	G4.13-G4.14, AG4.5-AG4.7	Agree. No split necessary

<b>Question 6: Scope and presentation of the Statement of Income and Expenses</b>	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.	
	Some income and expenses are proposed to be part of the Statement of Changes in Net Assets (see question 7).	
	<b>References</b>	<b>Response</b>



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a) Do you agree with the name of the primary statement being 'Statement of Income and Expenses'? If not, why not?	BC5.1-BC5.5	Yes
b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?	G5.5, BC5.6	<p>Yes. Profit and loss makes no sense in a non-profit context.</p> <p>The terms 'surplus' and 'deficit' are also problematic because a surplus bottom line may not be the actual surplus as it is pitched against income received during the year and expenses incurred during the year. It needs to be qualified and explained for it to be relevant as a surplus may seem too high in reality or a deficit to large in reality if funds were received previously and spent in the current year for example. So still not completely satisfactory and can be misleading, but better terms than profit and loss.</p>
c) 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	<p>Yes for the income component.</p> <p>While we agree for expenses this is helpful, we are considerate of a nonprofit practitioner context and what this will mean in terms of the financial capacity required to do this in the face of shrinking funding and nonprofits not equipped with adequate financial expertise. This will also double the cost of audits for the NPO in an environment where it is a struggle to obtain core and administrative funding.</p> <p>This is indicated to some extent by disclosing which funds are designated (restricted) and which are not designated (not restricted) at the end of the financial year on the balance sheet already.</p> <p>If anything, this disclosure should be in notes and not on the face of the financials. And or could be covered as a note explaining how the surplus is broken up and what is earmarked for future expenses.</p>



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d) 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	It makes sense to follow a standard income less expenditures = funds remaining/balance
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<b>Question 7: Scope and presentation of the Statement of Changes in Net Assets</b>	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.	
	<b>References</b>	<b>Responses</b>
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
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

<b>Question 8: Scope and presentation of the Statement of Cash Flows</b>	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.	
	<b>References</b>	<b>Responses</b>
a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If	G7.4 a)	Yes



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not, what alternative approach would you propose and why?		
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)	No The purchase of an asset in a non-profit context is not the same as for a for-profit entity. It is often used to realise a mission and not necessarily for return on investment. Please reconsider this classification.  Donors will require this with their own individual financial reports anyway?
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

<b>Question 9: Principles underpinning the notes to the financial statements</b>	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.	
	<b>References</b>	<b>Responses</b>
a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?		None that we know of

<b>Question 10: Approach to consolidated and separate financial statements</b>	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
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	circumstances (a rebuttable presumption). It provides guidance on less common situations when consolidation might not be appropriate. The Section uses NPO-specific terminology.	
	<b>References</b>	<b>Response</b>
a) 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. Does this consider controlling influence of a Board Chair that may have veto rights or a founder?
b) 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	No comment
c) 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	No comment
d) 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





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<b>Question 11: Approach to accounting policies, construction of estimates and accounting for errors</b>	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.	
	<b>References</b>	<b>Responses</b>
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

<b>Question 12: Scope and content of narrative reporting</b>	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.	
	<b>References</b>	<b>Responses</b>
a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?	G35.3-G35.7	Yes, this is very useful
b) Do you agree with the scope of the minimum mandatory requirement, with	G35.8-G35.19, G35.30,	Yes



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<p>additional information, such as sustainability reporting to be optional? If not, what changes should be made and why?</p>	<p>AG35.2-AG35.13</p>	
<p>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?</p>	<p>G35.7</p>	<p>This is worrying for NPO's with a social justice lens dealing with criminality, corruption or sensitive human rights issues which may be deemed unlawful by repressive regimes. By the mere fact that they elect to 'exclude' themselves from providing information due to the sensitive nature, this can 'redflag' them with authorities determined to shut them down or cease their activities. In networking within the sector, we highly recommend that this is revisited as it could be detrimental to the non-profit's purpose, its employees and board and its constituents. In the face shrinking civic spaces throughout the African continent this could be highly damaging to the progression of human rights and those aiming to hold structures accountable.</p>
<p>d) 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?</p>		<p>Yes, there are significant cost implications here for nonprofits in preparing the presentation of these formats and the increased costs of audits with additional disclosure requirements, and the need to understand and upskill and perhaps even hire additional expertise, in terms of what is needed.</p> <p>This will need to be funded in an already squeezed administrative and core cost donor allocation grantmaking practice. Education needs to be done across the sector and philanthropy with regards to budgeting, financial tracking adjustments and donor allocations.</p> <p>Even a 3 year period could be more favourable.</p>