



**INTERNATIONAL FINANCIAL REPORTING**  
FOR NON PROFIT ORGANISATIONS



Exposure Draft: International Non-Profit  
**Response from the Public Accountants and  
Auditors Board (PAAB), Zimbabwe**  
**28 March 2023**



## INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

The Public Accountants and Auditors Board (PAAB), Zimbabwe, was established by section 4 of the Public Accountants and Auditors Act, 1995 (as amended) (the Act). Public accountants (public auditors) are defined in the Act as any person registered by the PAAB to provide public accountancy services (public audit services) to any person, including a public company or statutory body. PAAB is the National Standards Setter in Zimbabwe responsible for endorsing and adopting international accounting standards, international standards on auditing and international public sector accounting standards when they meet certain criteria for prescription by statutory regulation by PAAB in accordance with section 44(2)(a) of the Act. PAAB is responsible for defining and enforcing ethical practice and discipline among registered public accountants and public auditors and setting Ethics standards (section 5(1)(d) of the Act); and representing the views of the accountancy profession on national, regional, and international issues (section 5(1)(g) of the Act). PAAB also plays a role in accountancy-specific education (section 5(1)(h) of the Act).

Further information about PAAB can be obtained at [www.paab.org.zw](http://www.paab.org.zw)

Any questions arising from this submission should be directed to:

Admire Ndurunduru

Secretary

Public Accountants and Auditors Board

72 Harare Drive

Mount Pleasant

Harare

Zimbabwe

Tel: + 263 4 301 063, + 263 4 301 096

Mobile: + 263 772 833 555

Email: [secretary@paab.org.zw](mailto:secretary@paab.org.zw)



# PAAB

**PUBLIC ACCOUNTANTS AND AUDITORS BOARD**

72 Harare Drive, Northwood, Mt Pleasant

Harare, Zimbabwe

Tel: +263 242 301 063, +263 8644 106 548

secretary@paab.org.zw

www.paab.org.zw

IFR4NPO  
Remote Office

28 March 2023

**Our ref: PAAB ZIMBABWE RESPONSE TO INPAG ED/2022/1**

Dear Chairman,

We are writing on behalf of the Public Accountants and Auditors Board (PAAB) in relation to the Exposure Draft, (INPAG ED/2022/1), *International Non-Profit Accounting Guidance Part 1 Exposure Draft*. The PAAB is pleased to present its comments on this Exposure Draft, in coming up with the comment letter we engaged multiple stakeholders from Donors, Academia, Professional accounting organisations, Auditors and Accountants. We also had the chance to attend Humentum hosted information sessions.

#### **General Comments on INPAG ED/2022/1**

The PAAB followed a due process. In the process, we conducted research, consulted our key stakeholders and through our technical team, we drafted this comment letter. We support the ongoing developments on the INPAG accounting guidance because the users are going to benefit from a more standardised approach for the preparation of financial statements. We are of the view that it is more desirable to prepare the INPAG accounting guidance with a greater alignment to IPSAS than IFRS for SMEs, since most not for profit organisations supplement government efforts which are mainly for public benefit and not for profit making.

#### **Response to Specific Matters for Comment**

Detailed comments on the specific matters for comment are provided in the attached Appendix. We hope this is a helpful contribution to IFR4NPO work in this area.

Admire Ndurunduru  
Secretary, PAAB

Leroy Nyabeze  
PAAB Technical Staff



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### Respondent information\*:

<b>First name:</b>	Admire	<b>Organisation:</b> Public Accountants and Auditors Board
<b>Last name:</b>	Ndurunduru	<b>Response:</b> on behalf of my organisation
<b>Email:</b>	<a href="mailto:secretary@paab.org.zw">secretary@paab.org.zw</a>	<b>Country:</b> Zimbabwe
<b>Position:</b>	Secretary	<b>Professional interest:</b> <ul style="list-style-type: none"><li>• regulator,</li></ul>

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	Agreed
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### Specific Matters for Comment

<b>Question 1: General comments</b>	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).	
	<b>References</b>	<b>Response</b>
a) Is the structure of INPAG helpful? If not, how could it be improved?	GP22-GP24	-The structure of INPAG is helpful because it starts with defining the key terms which are critical to the quick understanding of the guidance and then the accounting standards follow a chronology that is easy to utilise.
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.		-Regulatory- No comments Assurance- No comments Cost/benefit- No comments

<b>Question 2: Description of NPOs and users of INPAG</b>	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.	
	<b>References</b>	<b>Response</b>



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<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? If not, what would you propose and why?</p>	<p>G1.2-G1.5</p>	<p>Yes, providing benefit to the public but the institutions objects, should include one or more of the following:</p> <ul style="list-style-type: none"> <li>-the provision of all or any of the material, mental, physical or social needs of persons or families;</li> <li>-the rendering of charity to persons or families in distress;</li> <li>-the prevention of social distress or destitution of persons or families;</li> <li>-the provision of assistance in, or promotion of, activities aimed at uplifting the standard of living of persons or families;</li> <li>-the provision of funds for legal aid;</li> <li>-the prevention of cruelty to, or the promotion of the welfare of, animals;</li> </ul>
<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>Yes, if an NPO does not have its own specific format of presenting its financial results INPAG might help but if it has its own format which suits its Donors it will not be necessary.</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</p>
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	<p>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>	
	<b>References</b>	<b>Response</b>
<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>PAAB believes that the primary users are the NPO donors, internal stakeholders i.e. those fulfilling oversight functions and external stakeholders i.e. (government and regulatory authorities) i.e. resource providers and the public receiving services and goods because they are the most important beneficiaries to the Financial reports of the entity.</p> <p style="text-align: center;">Alternatively</p> <p>The public does not need to be included here. The funders and managers of the NPO are the primary users. We do not need to publish these accounts for the public as they do not provide funding to the organisation and it is therefore not within the public interest. Any information that the public needs to know is usually shared via the relevant ministry.</p>



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<p>b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?</p>	<p>G2.13-G2.32, AG2.1-AG2.3</p>	<p>The following qualitative characteristics are useful:</p> <ul style="list-style-type: none"> <li>• Relevance</li> <li>• Faithful representation</li> <li>• Comparability</li> <li>• Verifiability</li> <li>• Timeliness</li> <li>• Understandability</li> </ul> <p>There's no need to change.</p>
<p>c) Do you agree with the components of net assets? If not, why not?</p>	<p>G2.73, Diagram 2.2</p>	<p>Funds with restrictions are actually owed to the donor, so cannot be considered net assets. Lets take an NPO as a bank. The depositor (donor) puts in funds for a certain deliverable. If the deliverable is not met, the funds are returned to the donor much like a depositor withdrawing funds from their account.</p> <p>Alternatively</p> <p>The definition provided in G2.73 is the standard definition of net assets/ liabilities. The separation of funds with and without restriction is key. Recognition and timing of when rights and responsibilities are satisfied is important for recognition and measurement purposes.</p>



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<p>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?</p>	<p>G2.141, AG2.6-AG2.9</p>	<p>-The term equity will likely be misunderstood and should be avoided. The terms funds with or without restrictions are well in order as there will not be confused with profit making entities type of equity.</p> <p style="text-align: center;">Alternatively</p> <p>- Let's avoid equity. There are no shareholders in an NPO.</p>
<p>e) 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, we agree.</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>No.</p>



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<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>We agree that 'Service potential' is a term that needs to be introduced into INPAG ED1. Service potential, is usually defined as the capability of a resource to provide services that contribute to achieving the entity's objectives. Which is a worthwhile term to be used.</p> <p style="text-align: center;"><b>Alternatively</b></p> <p>The term is highly subjective yet we appreciate what the INPAG is trying to achieve and disclose. We do not see what purpose the introduction of such a term will have to the users of financial statements nor its necessity in spite of the best efforts of the standard setter to outline the value of such a concept. We simply do not see the qualitative value addition of inclusion.</p>
<p>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?</p>	<p>G2.33-G2.36</p>	<p>We do not agree. Preparers of INPAG compliant financial statements may not be at the same technical competence level with preparers of IFRS for SMEs financials. Since most NPOs were not using IFRS while IFRS for SMEs compliant entities are most likely to have been using IFRS before and will be knowledgeable with most of the IFRS based requirements.</p>
<p>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?</p>	<p>G2.43-G2.49, AG2.10-AG2.24.</p>	<p>The boundary of a reporting NPO based on the existence and information needs of users, is that it:</p> <ul style="list-style-type: none"> <li>-does not contain an arbitrary set of economic activities (or other set of activities related to its purposes), is helpful and clear in identifying the reporting NPO but not really complete as other elements in the definition of an NPO will also need to be taken into consideration to be able to correctly classify an NPO as such.</li> </ul>



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	<p>Identification of internal branches as an operational structure that is:</p> <ul style="list-style-type: none"> <li>-not a separate legal structure;</li> <li>- not required to provide separate general purpose financial reports;</li> <li>-uses the name of the reporting NPO in its title, its letterheads, on its website or as a part of its publicity;</li> <li>- raises funds solely for the reporting NPO;</li> <li>- presents itself to the public as a local or other form of representative of the reporting NPO; and/or</li> <li>- receives financial and administrative support, instruction and advice from the reporting NPO</li> </ul> <p>Is very supportive in identifying the NPO as a reporting entity.</p>
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<p><b>Question 4: Principles to enable comparability of financial statements</b></p>	<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	Yes.
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	Yes.
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	No.

<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 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	G4.5-G4.9, AG4.4	Yes.



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a liquidity-based presentation has been adopted)? If not, why not?		
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?	G4.13-G4.14, AG4.5-AG4.7	Yes.

<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>
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	Yes.



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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	Yes.
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	They should present income items first, then expense items second or below.



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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)	Yes. Alternatively  Investment or investing suggest expenditures in pursuit of profits and that is not supposed/expected to be the goal of an NPO.
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?		No, Accounting policies in line with the usage of INPAG must be stated here.

<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 circumstances (a rebuttable presumption). It provides guidance on less common situations when	
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	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.
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	Yes.
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	Yes.
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.

<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.
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	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?		We agree with the updates to Section 10 and that there are no additional NPO specific considerations that need to be addressed under Section 10 - "Accounting policies, estimates and Errors".

<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.	
	References	Responses
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	We agree with the proposed principles to underpin narrative reporting. We believe that these principles will result in performance information and financial statement commentary that is useful to users of the NPO's general purpose financial report as explained in section 2 Concepts and pervasive principles of the exposure draft.
b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as	G35.8-G35.19, G35.30,	We agree with the minimum mandatory requirement. We, however, believe that INPAG must provide some clarity regarding optional additional information because if



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sustainability reporting to be optional? If not, what changes should be made and why?	AG35.2-AG35.13	an entity decides to provide such optional narrative disclosures that election must be irrevocable in the future for prospective comparability.
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?	G35.7	We do not agree with total exclusion of such information from the narrative reports. We believe that the reports should bring out the fact that there is information that has been excluded from the public because the information is sensitive. We also believe that the preparers may need to state the reasons for such exclusions if possible and whether the auditors would have expressed an opinion on such sensitive information.
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?		We believe the two-year transition period is a fair timeline for the implementation.