**Response of Empacta e.V. to INPAG ED1**

In most respects this guidance will be a huge step forward for the sector, but we have a couple of extremely serious concerns about the way the guidance is developing.

The first is that the draft includes quite detailed guidance about including a narrative report. This is, of course, very valuable in order to give an understanding of what the organisation has been doing and what the numbers in the financial statements mean. However, reporting activities could be extremely dangerous for organisations, their staff and potentially their beneficiaries working in a shrinking space. The guidance recognises this and, in sections IG35.4 to IG35.6, grants an exception from reporting anything about such activities. However, in section G35.7, there is also a requirement to disclose that an organisation has taken advantage of the exception. This disclosure is little better than reporting sensitive activities - it is shouting to the authorities that the organisation has some activities that are at best controversial and at worst could place the organisation, and/or its staff and/or its beneficiaries in danger. The authorities could make life even easier for themselves by prohibiting the use of section G35.7 when they implement INPAG. Further attention and investigation are almost inevitable.

There could also be dangers for auditors. An organisation undertaking sensitive activities might decide not to report anything about those activities and to protect itself by not disclosing that it has taken advantage of the exception. The auditors will then have an impossible choice. Do they put the organisation back in danger by reporting the non-compliance with the guidance or do they put their professional position (and possibly themselves) in danger by colluding with their client and ignoring the non-compliance?

It has been suggested that organisations may be able to comply by making vague statements about their activities, such as, “We provided workshops” or, “We supported members of the beneficiary community”, but how would this fit with the requirement of section G35.5a that the narrative report shall “provide **faithful representation** of the NPO’s operations and activities”? And how would this match the wider objective of having a narrative report that gives meaningful context to the financial statements? It seems to us that the guidance will need some additional, carefully worded implementation guidelines and many illustrative examples to help protect both organisations and auditors.

Our second concern is that, at events run by INPAG, there has been some pressure to add to the guidance a requirement to compare actual financial performance with budget. This would be a very different requirement from those applied to the commercial sector and, again, could lead to disclosing sensitive information that could be used against an organisation by a government or regulator. Failure to achieve budgeted performance could be ammunition for saying that the organisation is failing and must therefore close.

The points we have outlined above identify features of the draft guidance that would provide oppressive regimes with tools to make the shrinking space even more difficult for organisations to work. For some it could become impossible or too dangerous to continue operations. In cases where they do continue, their auditors could then be placed in professionally or personally impossible situations.

Protecting the work of organisations, and the safety of those connected with that work, is of paramount importance to the world. That protection is far greater than the wish to provide accountants and academics with the data they think they would like for analysing and comparing NPOs.