INPAG GUIDANCE SECOND EXPOSURE DRAFT COMMENTS

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Introduction

Our comments are based on our passion of having meaningful, useful and relevant financial Reporting Framework for Not for Profit entities. It follows my ground breaking research entitled; "*The impact of Financial Reporting Framework on the preparation of Financial Statements for NFPO" that was issued on the quality of financial statements for NFPO." ID number…….* They are also based on my prior comments on Part I whose feedback I have never received plus the webinars that we attended between 7th and 23rd November 2023. My comments are also based on the three objectives of Quality, Trust, and Comparability as stated in the current ED.

My comments have been divided into the following sections;

I. General comments
II. Section 11 - Financial Instruments
III. Section 13 – Inventories
IV. Section 21 –Provisions and contingencies
V. Section 23 – Revenue
VI. Section 24- Expenses on grant and donations
VII. Section 25 – Borrowing costs
VIII. Section 28 – Employment benefits
IX. Section 29 – Income tax
X. Section 30 - Foreign Currency Translation
XI. Section 31 - Hyperinflation
XII. Section 32 – Events after the end of the reporting period

I. General Comments

1.1 The Name of the Document

Why are we preparing a Guidance? *Is the Guidance a framework, guidelines or accounting standards?* Guidelines refer to general rules, principles, official instructions or piece of advice about the best way to do something. Guidance refers to help or advice given to someone about their work, education etc.

A Framework refers to a basic structure, plan, or system as of concepts, values, customs or rules. The IFRS conceptual framework is comprised of five sections namely; the general purpose of financial reporting, the reporting entity, the qualitative characteristics of financial statements, the basic concepts of financial reporting, and the illustrative examples of financial statements.

Accounting standards refer to a common set of principles, standards and procedures that define the basis of financial accounting policies and practices

The objective of IASB was to develop, in the public interest, a single set of high quality, understandable, *enforceable, and globally accepted financial reporting* Standards based on clearly articulated principles. The same analogy was used while developing the IFRS for SMEs which is the ground basis for these Guidelines. Therefore, when we call what we are developing a 'Guidance' it seizes to be enforceable but rather just advice that one may choose to use or not.

1.2 Objectives of the Guidelines

Page 3 – Introduction

The main objectives of this Guideline are; Quality, Trust, and Comparability. It is duplication to mention quality then also mention trust and comparability alongside it because quality is defined by characteristics such as trust, comparability, relevance, usefulness, accountability, understandability, timeliness, verifiability etc. The objective of this Guideline then should be one of improving the quality of NFPO financial reporting that should comprise of both fundamental and enhancing objectives namely;

- Faithful presentation
- Relevance
- Accountability
- *Understandability*
- *Comparability*
- *Verifiability*
- *Timeliness*

According to the IFRS4SMEs framework, there are both fundamental and enhancing, why don't they feature the same way since we have chosen this as our benchmark?

1.3 Inconsistence in the name of the document being developed

Page 4 -NPAG development

Comment No. 3 -INPAG development approach shows three stages of which, stage no.1 is "***framework and prioritized topics".*** Since a framework has a different definition from a Guidance, why are we calling this a Guideline? If Stage 1 is a Framework, then it is likely that stage 2 and 3 will develop the same, hence Framework should be used rather than Guideline.

1.4 Relevance of our comments

Page 5 – Delivering INPAG

Comment No. 4- Approach- One of the paragraphs reads, "*In the time available it has not been possible to incorporate the feedback from Exposure Draft 1 into Exposure Draft 2. Some of the original proposals in Exposure Draft 1 are likely to be refined in the third Exposure Draft. Changes made following stakeholder feedback will be clearly identified*"

I expected an interactive feedback process because some of the feedback I provided for the ED1, I believe needed to be considered before proceeding to ED2 otherwise, it is may seem like they do not matter. For example, the reasoning for using the IFRS for SMEs as a benchmark for developing the guidance may be too late at ED3. My argument was that IFRS for SMEs is not and will never be the correct foundation for NFPO qualitative financial reporting because of the following

- Its DNA is the full IFRS which was created for profit entities under principles of economic decision making, agency theory perspectives of risk, protection of lenders, as opposed to the accountability and stewardship theories.

II-Question 1: Financial instruments

a) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required.

Comment No.5

Yes, I do agree

III-Question 2: Inventories

a) Do you agree with the expansion of Section 13 *Inventories* to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?

Comment No.6
Yes, I do agree

b) Do you agree with the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognized as inventory? If not, what would you propose instead?

Comments:
No, I do not agree

Exception 1: low-value items donated to the NPO for resale or to be transferred to another party in the course of the NPO's fundraising activities, recognized as revenue when the items are sold or fundraising activity takes place.

I disagree with this exception because the guidance does not clearly define the cut – off between low value and high value of an item. I propose that the guidance to have a policy that sets the price range (threshold) so that judgement is uniform of what's of low value and what's of high value. In order to strike a balance of accountability, integrity and objectivity among the recipient NPOs.

Exception 2: items (other than non-current assets or high-value items) donated to the NPO for distribution to service recipients or for the NPO's own use, recognized as revenue and an expense when the items are distributed or used.

Inventory can be classified into different categories such as inventory for distribution, inventory for and inventory for internal use so the NPOs are able to recognize the inventory they receive from donations under the different categories basing on the concept of current assets, as the NPO will utilize the inventories within a year.
I propose that the inventory is recognized and derecognized after the inventory has been distributed to recipients and then recognized as revenue and an expense.

c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?

Comment:
Yes, I agree

d) Do you agree that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost adjusted for any loss of service potential, and replacement cost? If not, what would you propose instead?

Comment:
Yes, l agree

e) Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognized because they cannot be reliably measured? If not, what would you propose instead?

Comment:
Yes, I do agree

IV-Question 3: Provisions and contingencies

a) Do you agree that an illustrative example on warranties is removed from the Implementation Guidance, and a new example on onerous contracts is added? If not, why not?

Comment:
Yes, I agree

V-Question 4: Revenue

a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements.
Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to

achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?

Comment:
Yes, I agree

b) Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?

Comments:
No, I do not agree

This is because both Parts of section 23 adopt the 5-step model of revenue recognition from IFRS 15 and the only aspect of differentiation of the two parts is terminology which causes duplication of information within the guidance.

I propose that part I and part 11 of recognition of revenue to be consolidated into one for example 'Principles of revenue recognition and measurement' were consolidated to address revenue from grants and donations and revenue from contracts with customers simultaneously and the same can be done for recognition of revenue.

c) Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?

Comments:
Yes, I agree

d) The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?

Comment:
Yes, I agree

e) Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale?

Comments
No, I do not agree

*Because where the gift in-kind can be reliably measured, the permitted exceptions would undermine **transparency** over the revenue of the NPO and accountability to the providing entity and ensuring that the gifts in – kind are used for what they were purported for. One of the objectives of the guidance is quality, thus for information to be qualitative, the information needs to be transparent and comparative.*
I propose that gifts – in – kind should be fully recognized

f) Do you agree that services in-kind are not required to be recognized unless they are mission critical? If not, on what basis should services in-kind be recognized and what is the rationale?

Comments:
No, I do not agree

Recognizing services in-kind is important because it assists in understanding the operations' of an NPO for example, where an NPO is dependent on services in-kind that are not mission critical but somehow aid in achieving the mission. Nonetheless, it is vital to recognize and measure them for transparency's sake.

g) Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you propose instead?

Comments:
Yes, I agree

h) Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.

Comments:
No, I do not agree

Administrative tasks can individually create separate enforceable obligation.
For instance where the providing NPO stipulates in an enforceable grant arrangement that the recipient NPO will receive funds in portions and thus to continue receiving the remaining portion of funds the recipient NPO has to submit monthly monitoring reports for example narrative reports to account for the funds received before more funds are given to the recipient NPO.
When the recipient NPO fails to adhere to the administrative tasks within their enforceable grant arrangements, there might be sanctions in line with the terms of the enforceable grant agreement. Sanctions may include penalties, or the withholding of funds by the grant provider.

i) Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?

Comments:
No, I do not agree

The disclosure 'An NPO is encouraged (but not required) to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognized as revenue' does not stem from the principle of transparency but rather creates leeway for NPO's to withhold information which might be vital to the user of their financial statements. This disclosure would make comparability of financial statements of an NPO that discloses and one that does not invalid in regards to services and gifts in kind yet one of objectives of the guidance is 'quality' which encompasses the aspect of comparability.
I propose for the guidance to make this mandatory for all NPOs for the reasons above.

j) Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with customers. For more complex grant arrangements, additional guidance is provided about how to apply Part II in the NPO context. Do these proposals successfully remove duplication, help understandability and the ability to implement? If not, what would you change and why?

Comments:
Yes, I agree and No, I do not agree to a certain extent

The proposal assists in the understandability of how to deal with revenue from grants and revenue from contracts because each is elaborated in depth however, the proposals in Part I for simpler grant arrangements and Part II for simpler contracts with customers duplicate each other since they both are based on the 5 step model for recognition of revenue in IFRS 15 – Revenue from Contracts with customers except for the different terminologies used in both parts.
I suggest the two are merged to on part of the section since they are communicating the same message in different words.

k) Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part II is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs.

Comments:

Yes, I do have comment on the proposal in section

Under the 'Economic substance of transactions – the amounts given and received are not of approximately equivalent value' where an NPO may elect not to reflect the intention to make a donation or grant where the NPO provides both a service and a grant to the recipient NPO and the difference is not material or the cost of identifying the donation or grant exceeds the likely benefit to users of the financial statements. What is the level of materiality that the NPO should consider as its making the election to not reflect the intention to make a donation or grant?

VI-Question 5: Expenses on grants and donations

i. Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?

Comment:
Yes, I agree

ii. Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as another funding arrangement? If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?

Comment:
Yes, I agree

VI-Question 6-Expenses on Grants and Donations

a) Enforceable grant arrangements are required to be enforceable through legal or equivalent means. Do you agree that regulatory oversight and customary practices can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to these mechanisms?

Comments:
Yes, I agree

b) Do you agree that the full amount of the grant (including where it covers multiple years) should be recognized as an expense if the grant-provider has no realistic means to avoid the expense? If not, under what circumstances should a grant provider not recognize the full expense and what is the rationale? (Both sections include this question, which you can answer under either section, or cover the grantor and grantee perspectives separately.

Comment:
No, I do not agree

With recognizing the full amount of a grant as an expense because the grant provider does not have realistic means to avoid the expense subsequently, the grant provider would still control the resources in the transaction since they have not been fully transferred to the grant – recipient.
Grant providers should not recognize the full amount of grants as expenses, when the whole sum amount of the grants are not transferred to the grant recipients as a whole thus I propose that grant providers should not recognize full amount of grants when they still have control over the funds due to the reason given above.

c) Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? If not, why not? What would you propose instead?

Comment:
Yes, I agree

d) Do the proposals for disclosure of grant expenses, which include a sensitive information exemption, provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?

Comments:
No, I do not agree

The disclosure 'A grant-providing NPO is not required to disclose sensitive information about grant expenses. A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/ volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Sensitive information may include but is not limited to the name of grant recipients, the geographic locations in which they operate, and the third parties to whom they provide services, goods and other assets' does not provide an appropriate level of transparency

The exception to not disclose sensitive information can be used by NPOs to avoid disclosures that might identify failures within the organizational governance, performance or financial management that could have a negative impact on the NPO fundraising among others since the guidance does not limit what is considered as sensitive information. This reason therefore, I propose that the guidance gives a limit to what information should be considered sensitive such that transparency is not comprised by information provided by the NPOs.

e) Do you agree that a grant-providing NPO with an OFA can only recognize an asset at the point that a grant recipient has not complied with a constraint on the use of funds provided? If not, what would you propose instead?

Comment:
Yes, I agree

f) Do you have any other comments on the proposals in Section 24, including that administrative tasks in an enforceable grant arrangement are generally not an enforceable grant obligation but a means to identify or report on resources? If so, provide the rationale for any comments and cross reference to the relevant paragraph.

Comments:
No comment

VII-Question 6: Borrowing costs

a) Do you agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made? If not, set out the alignment changes you believe are required.

Comments:
Yes, I agree

VIII-Question 7: Share-based payments

a) Given the characteristics of NPOs, do you agree that guidance on share-based payments is not required? If not, provide examples of share-based payments and explain how they are used.

Comments:
Yes, l agree

IX-Question 8: Employee benefits

a) Do you agree that profit sharing and share-based payments are removed from Section 28 *Employee benefits* to reflect that employees of NPOs are very unlikely to be incentivized by sharing in the surpluses made by an NPO? If not, provide examples of such arrangements used by NPOs.

Comments:
Yes, l agree

b) Do you agree that in-year changes to the value of post-employment benefits can be shown on either the Statement of Income and Expenses or Statement of Changes in Net Assets? If not, why not?

Comments:
Yes, l agree

X-Question 9: Income Tax

a) Are there any elements of Section 29 *Income taxes* that are not required by NPOs? If so, explain which elements are not needed and why?

Comments:
Yes, l agree

XI-Question 10: Foreign currency translation

a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?

Comment:
Yes, I agree

b) Do you agree with the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?

Comments:
Yes, l agree

c) Do you agree with the proposal to require exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with restrictions to be disclosed? If not, why not? What would you propose instead?

Comments:
Yes, l agree

XII-Question 11: Hyperinflation

a) Do you agree that there are no significant alignment changes required to Section 31, other than the terminology changes that have already been made? If not, describe any further alignment changes required.

Comments:
Yes, l agree

XIII-Question 12: Events after the end of the reporting period

a) Do you agree that there are no significant changes required to Section 32, other than those that have already been made for alignment purposes? If not, describe any further alignment changes required.

Comments:
Yes, l agree

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