

REPORT ON ICPAU SURVEY ON INPAG EXPOSURE DRAFT 2

Introduction

ICPAU conducted a survey among its members on selected proposals in INPAG ED2. Below is a summary report based on the survey questionnaire:

FINANCIAL INSTRUMENTS

Q1: Do you agree that no significant changes are required to Section 11, other than alignment with other sections?

| ANSWER CHOICES | RESPONSES | |
|---------------------------------------------------------|-----------|-----------|
| Yes | 92.73% | 51 |
| No | 3.64% | 2 |
| If not, what other changes do you believe are required? | 3.64% | 2 |
| TOTAL | | 55 |

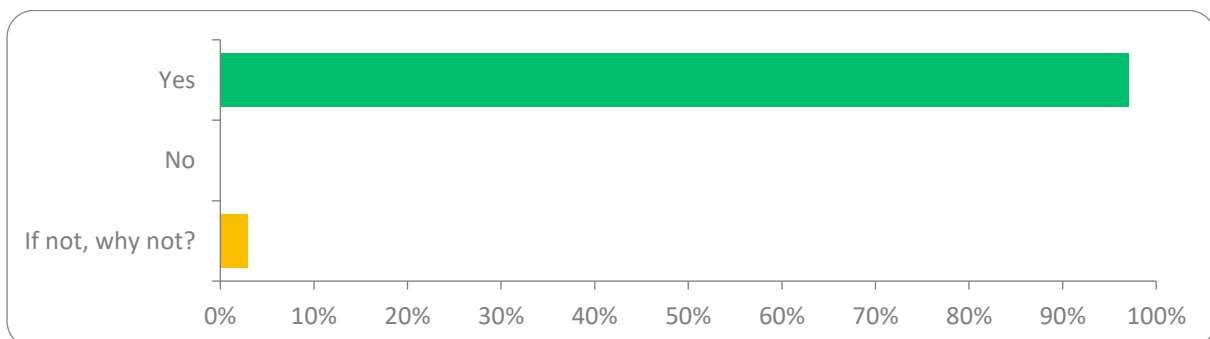
Answered: 55 Skipped: 0

If not, what other changes do you believe are required?

The guidelines need to allow contextualisation to small organisations.

INVENTORIES

Q2: Do you agree with the expansion of Section 13 Inventories to specifically include inventory held for use internally, for fundraising, or distribution?

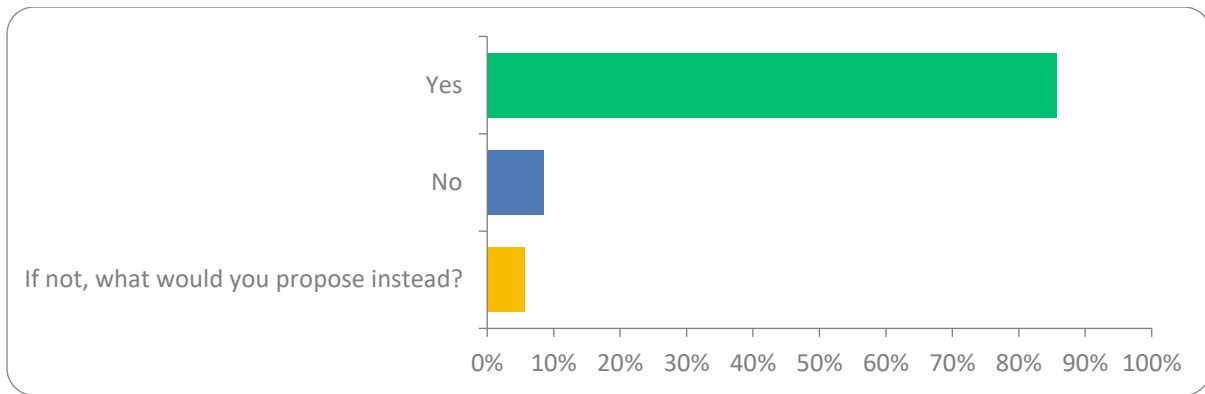


Answered: 42 Skipped: 13

If not, why not?

More training is needed for this expansion.

Q3: 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 recognised as inventory?



Answered: 43 Skipped: 12

If not, what would you propose instead?

1. Inventories are assets held by a company for the purpose of selling them in the ordinary course of business. The value of these inventories is crucial for assessing a company's financial position and performance. By excluding donated inventories and work in progress from being recognized as inventory, there is a risk of understating the true value of assets held by the company, which can mislead stakeholders and investors.
2. The schedule of this inventory be disclosed with their fair values.
3. The low-valued items should be tracked to avoid losing them before it is recognized as revenue and expense. The permitted exception should only apply to work in progress. However, all inventory should be recognized.

Q4: 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?

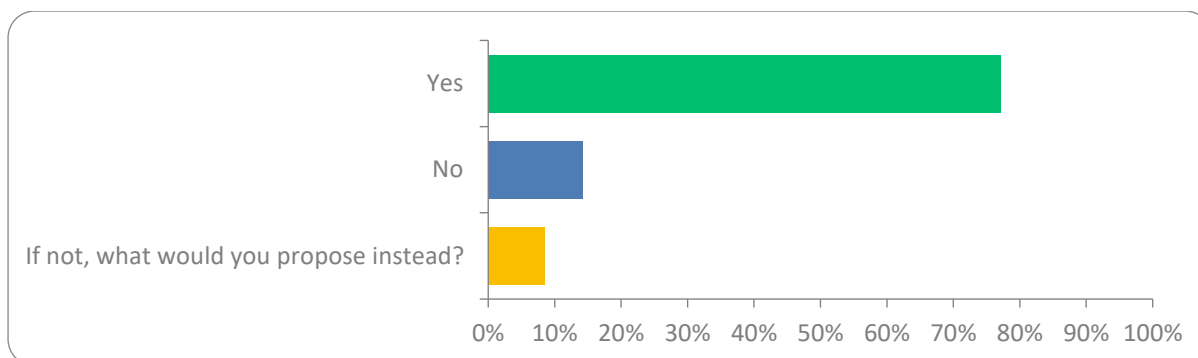
| ANSWER CHOICES | RESPONSES | |
|-----------------------------------------|-----------|----|
| Yes | 93.02% | 40 |
| No | 4.65% | 2 |
| If not, what would you propose instead? | 2.33% | 1 |
| TOTAL | | 43 |

Answered: 43 Skipped: 12

If not, what would you propose instead?

The cases where replacement cost will fall below cost adjusted for service potential are likely to be few. The additional cost of finding replacement cost and comparing it to cost (less any loss of SP) is not worth it for the benefit of reducing the value of inventory on the BS. The real value is the change that inventory achieves in someone's life.

Q5: Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognised because they cannot be reliably measured?



Answered: 43 Skipped: 12

If not, what would you propose instead?

1. An estimated value or market value can be used as the basis for measurement.
2. Low-value donated inventory should not be measured. But high value donated inventory should be measured. An example of high-value donated inventory that should be measured could be say a 40 ft container of malaria medicine etc
3. Reasonable estimation should be made in a prudent way

REVENUE

Q6: 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?

| ANSWER CHOICES | RESPONSES | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----|
| Yes | 89.47% | 34 |
| No | 2.63% | 1 |
| 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? | 7.89% | 3 |
| TOTAL | | 38 |

Answered: 38 Skipped: 17

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?

1. Restricted and Non restricted would be easier
2. Cooperative agreement vs. grant agreement these are usually interchangeable terms in practice. May need to make provisions
3. Since OFAs may also be enforceable, EGA is not a useful name. Also, enforceability is theoretical in many jurisdictions, and may be enforceable by the donor but not the recipient. The term EGO is too easy to confuse with compliance obligations, which in INPAG are called admin tasks and are not EGOs. I propose 'required deliverables' instead of EGO. Some awards are in the form of contracts rather than grants. The recipient is a 3rd party, but the legal form of the award is a contract rather than a grant. So I recommend 'award with required deliverables' or ARD in place of EGO. The fact that is an 'awards indicates the enforceable nature of it.

Q7: Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received?

| ANSWER CHOICES | RESPONSES | |
|-------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Yes | 92.11% | 35 |
| No | 5.26% | 2 |
| If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal? | 2.63% | 1 |
| TOTAL | | 38 |

Answered: 38 Skipped: 17

Q8: 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?

| ANSWER CHOICES | RESPONSES | |
|--------------------------------------------------------------------------------|-----------|-----------|
| Yes | 94.74% | 36 |
| No | 5.26% | 2 |
| If not, what methods would you propose? What are the practical considerations? | 0% | 0 |
| TOTAL | | 38 |

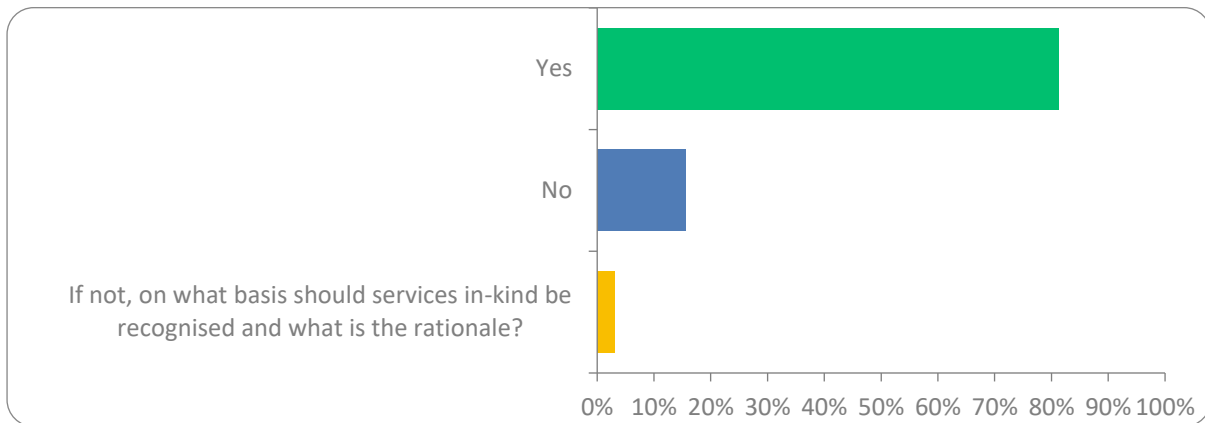
Answered: 38 Skipped: 17

Q9: 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?

| ANSWER CHOICES | RESPONSES | |
|-------------------------------------------------------------------|-----------|-----------|
| Yes | 89.74% | 35 |
| No | 10.26% | 4 |
| If not, what would you propose instead and what is the rationale? | 0% | 0 |
| TOTAL | | 39 |

Answered: 39 Skipped: 16

Q10: Do you agree that services in-kind are not required to be recognised unless they are mission-critical?

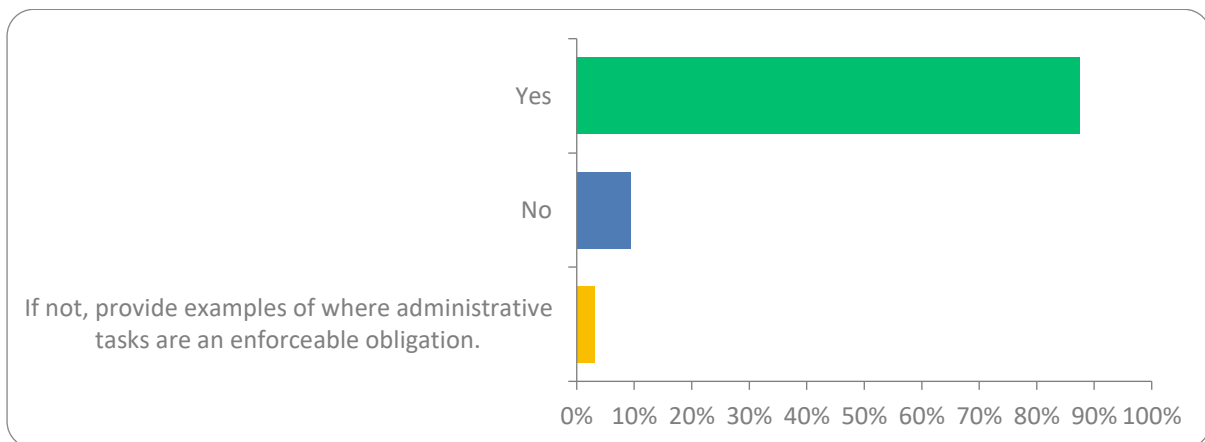


Answered: 39 Skipped: 16

If not, on what basis should services in-kind be recognised, and what is the rationale?

- as long as they contribute to the objectives, they should be recognised. It helps in rationalising the cost of doing business
- This may cause a grey area in accounting for the level of effort, which can increase idle time yet in NPO, time resources are key.

Q11: 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?



Answered: 39 Skipped: 16

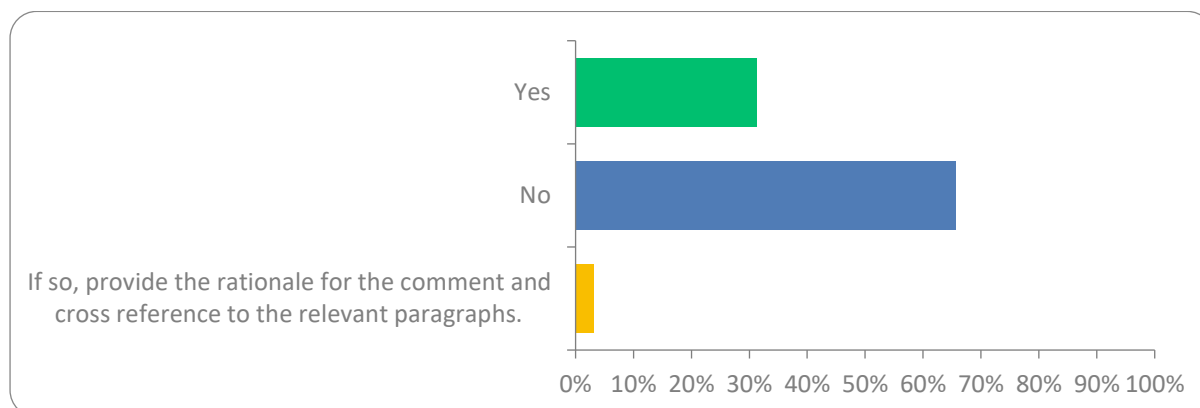
If not, provide examples of where administrative tasks are an enforceable obligation. The term is very confusing. The sector uses the term 'compliance obligations'.

Q12: Do the proposals for disclosure of grant revenue provide an appropriate level of transparency?

| ANSWER CHOICES | RESPONSES | |
|-----------------------------------------------------------------------------|-----------|-----------|
| Yes | 97.44% | 38 |
| No | 0% | 0 |
| If not, what would you propose and what is the rationale for your proposal? | 2.56% | 1 |
| TOTAL | | 39 |

If not, what would you propose and what is the rationale for your proposal?
 Too onerous and detailed

Q13: 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?



Answered: 39 Skipped: 16

If so, provide the rationale for the comment and cross-reference to the relevant paragraphs. Need clear guidance on how to determine fair value, especially for non-financial contributions that may not have a readily determinable market value.

EXPENSES ON GRANTS AND DONATIONS

Q14: Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as another funding arrangement?

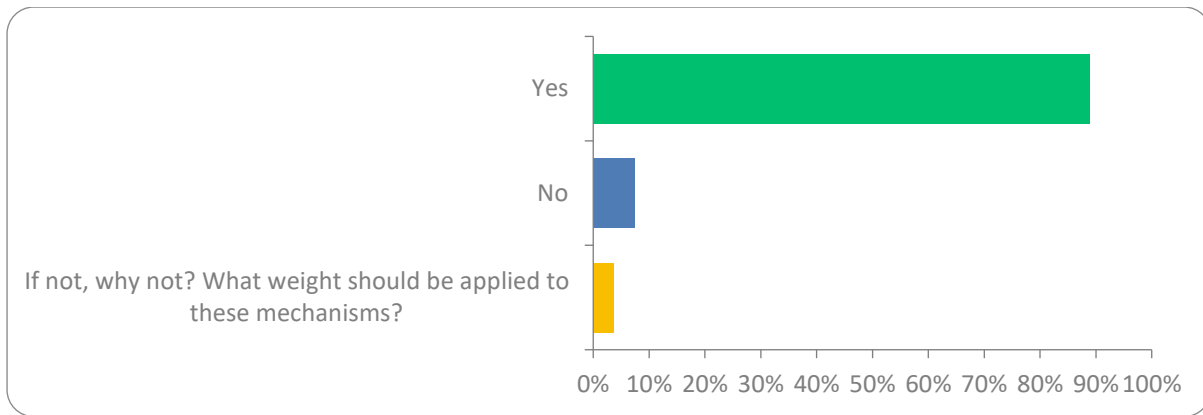
| ANSWER CHOICES | RESPONSES | |
|--------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Yes | 91.18% | 31 |
| No | 5.88% | 2 |
| If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not? | 2.94% | 1 |
| TOTAL | | 34 |

Answered: 34 Skipped: 21

If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?

No, I believe there should be 3 categories of grants that fees into 2 types of accounting treatment. This would make it clear that a restricted grant award that lacks enforceable required deliverables should be recognised on receipt.

Q15: 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?



Answered: 34 Skipped: 21

If not, why not? What weight should be applied to these mechanisms?

- Certainly not, especially where there is no meaningful regulation. Customary practices are to mitigate risk by sending small frequent amounts and requiring frequent accountability. But this is not recourse or enforcement, it is rather a pragmatic approach in the absence of legal or equivalent enforcement mechanisms. Even recovery of fraudulent losses is not that common, especially where there is a lack of resources to pay, the fraud was committed without the knowledge of Senior Leadership, and the associated publicity damages the reputation.
- Given the varying jurisdictions of the receiver/granter, the customary and regulatory oversight might not be sufficient to create enforcement.

Q16: Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense?

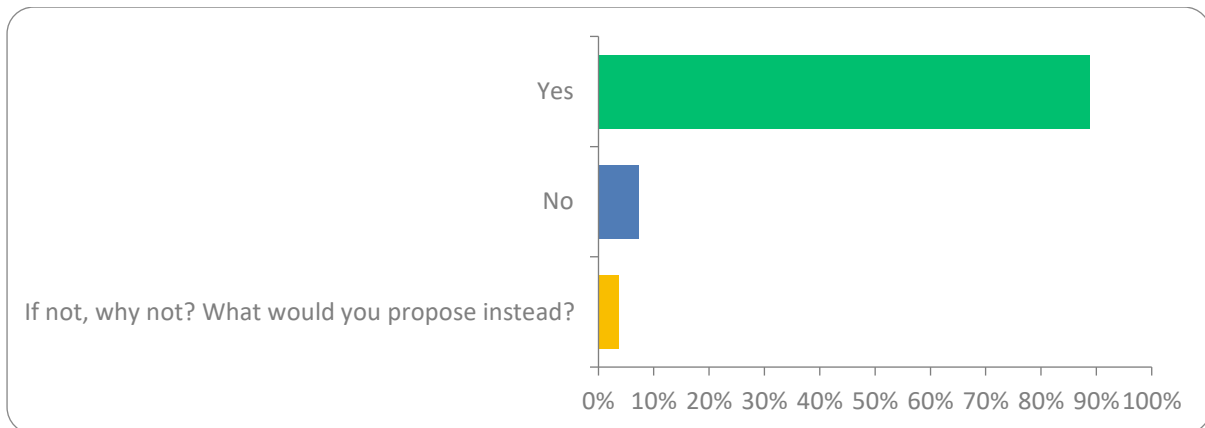
| ANSWER CHOICES | RESPONSES | |
|--------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Yes | 88.24% | 30 |
| No | 8.82% | 3 |
| If not, under what circumstances should a grant-provider not recognise the full expense and what is the rationale? | 2.94% | 1 |
| TOTAL | | 34 |

Answered: 34 Skipped: 21

If not, under what circumstances should a grant provider not recognise the full expense and what is the rationale?

Where it covers multiple years, expenses should be recognized proportionately.

Q17: Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants?



Answered: 34 Skipped: 21

If not, why not? What would you propose instead?

But the example FS should include the option for grantee to transfer capex to restricted capital fund, or grant funded assets fund. This will avoid creating losses on the general fund, caused by depreciation of previously donated/ grant funded assets

Q18: Do the proposals for disclosure of grant expenses, which include a sensitive information exemption, provide an appropriate level of transparency?,

| ANSWER CHOICES | RESPONSES | |
|-----------------------------------------------------------------------------|-----------|-----------|
| Yes | 94.12% | 32 |
| No | 5.88% | 2 |
| If not, what would you propose and what is the rationale for your proposal? | 0% | 0 |
| TOTAL | | 34 |

Answered: 34 Skipped: 21

Q19: Do you agree that a grant-providing NPO with an 'Other Funding Arrangement' can only recognise an asset at the point that a grant recipient has not complied with a constraint on the use of funds provided?

| ANSWER CHOICES | RESPONSES | |
|-----------------------------------------|-----------|-----------|
| Yes | 94.12% | 32 |
| No | 5.88% | 2 |
| If not, what would you propose instead? | 0% | 0 |
| TOTAL | | 34 |

Answered: 34 Skipped: 21

Q20: 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.

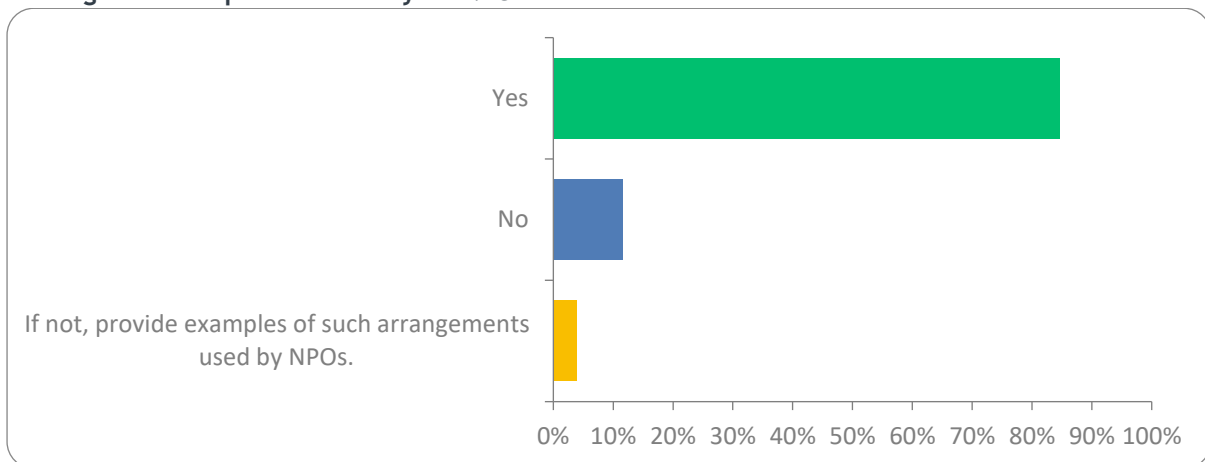
| ANSWER CHOICES | RESPONSES | |
|----------------------------------------------------------------------------------------------|-----------|-----------|
| Yes | 38.24% | 13 |
| No | 55.88% | 19 |
| If so, provide the rationale for any comments and cross reference to the relevant paragraph. | 5.88% | 2 |
| TOTAL | | 34 |

Answered: 34 Skipped: 21

If so, provide the rationale for any comments and cross-reference to the relevant paragraph. An example of an admin task that could be an EGO is a requirement to develop a procurement or fraud policy, where the funder has given funds to support this process and it is a required deliverable.

EMPLOYEE BENEFITS

Q21: 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 incentivised by sharing in the surpluses made by an NPO?

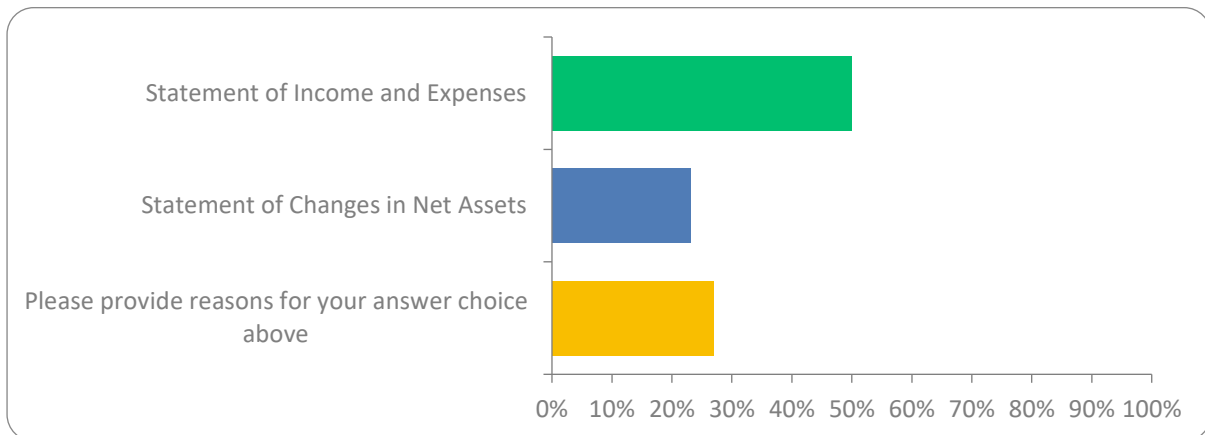


Answered: 33 Skipped: 22

If not, provide examples of such arrangements used by NPOs.

- a. Commercial entities could also be running NPOs for the purposes of Sustainability Programs. Staff between commercial and NPO activities could be distinct contractually but say by year end it is very difficult to offer salary bonuses to commercial business staff and zero bonus to NPO activities staff when all staff have been mixed working in the same teams.
- b. There are scenarios (especially related to contracts & fee-for-service) where employees are incentivized based on the volume of order intake

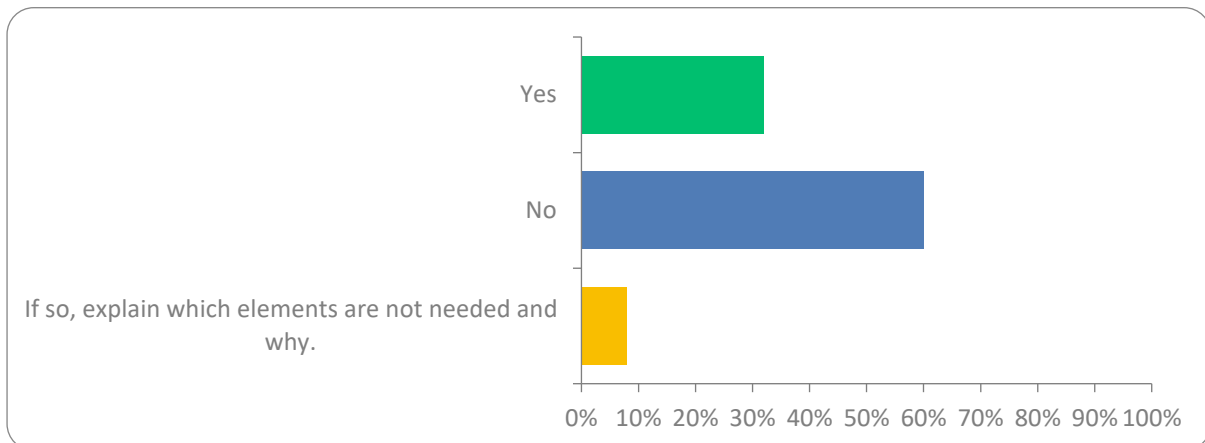
Q22: In which Statement should in-year changes to the value of post-employment benefits be shown?



Answered: 32 Skipped: 23

INCOME TAXES

Q23: Are there any elements of Section 29 Income taxes that are not required by NPOs?



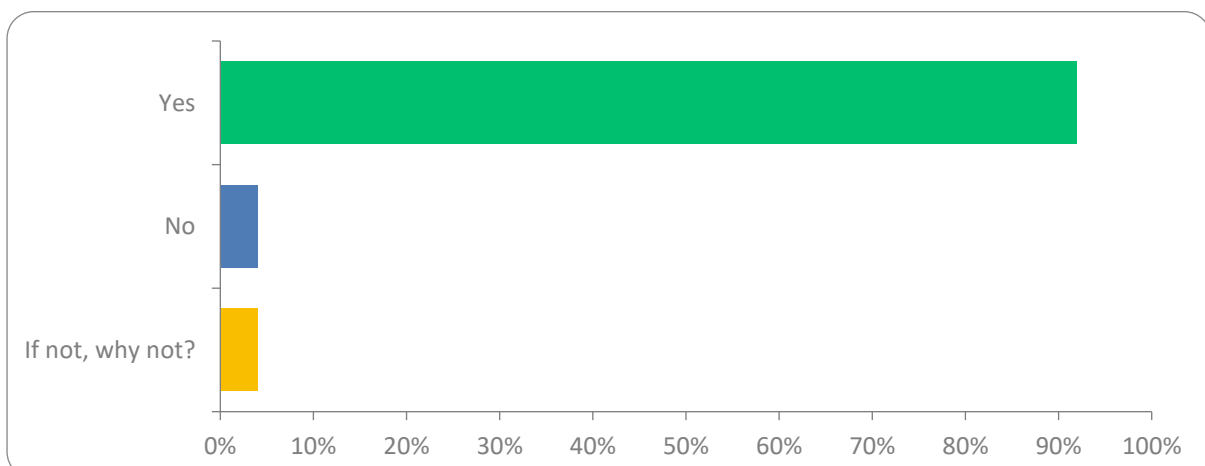
Answered: 32 Skipped: 23

If so, explain which elements are not needed and why.

1. NPOs mostly provide services and thus no much returns on trading businesses
2. NPOs should ideally apply formally for tax exemptions. Why should they then get involved in the the complications of say deferred tax etc

FOREIGN CURRENCY TRANSLATION

Q24: Do you agree that grants and donations should be considered when setting the functional currency?



If not, why not?

This might skew organ that receive funds in FX buy spend on local to choose foreign which would not be appropriate

Q25: 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?

| ANSWER CHOICES | RESPONSES | |
|------------------|-----------|----|
| Yes | 100% | 32 |
| No | 0% | 0 |
| If not, why not? | 0% | 0 |
| TOTAL | | 32 |

Answered: 32 Skipped: 23

Q26: 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?

| ANSWER CHOICES | RESPONSES | |
|--------------------------------------------------|-----------|----|
| Yes | 93.75% | 30 |
| No | 6.25% | 2 |
| If not, why not? What would you propose instead? | 0% | 0 |
| TOTAL | | 32 |

Answered: 32 Skipped: 23

Q27: Do you have any other comments on Section 30, including whether there are any NPO-specific recognition and measurement issues associated with foreign currency translation?

| ANSWER CHOICES | RESPONSES | |
|---------------------------------------------------------------------------------------|-----------|----|
| Yes | 31.25% | 10 |
| No | 65.62% | 21 |
| If so, explain your comments and the NPO-specific recognition and measurement issues. | 3.12% | 1 |
| TOTAL | | 32 |

Answered: 32 Skipped: 23

If so, explain your comments and the NPO-specific recognition and measurement issues.
Details on translations related to sub-awards with varying arrangements different from main donor

GENERAL COMMENTS

Q28: Please share any other comments that you wish to raise on INPAG Exposure Draft 2.

| ANSWER CHOICES | RESPONSES | |
|----------------------|-----------|----|
| No | 96.67% | 29 |
| Yes (please specify) | 3.33% | 1 |
| TOTAL | | 30 |

Answered: 30 Skipped: 25

If Yes (please specify)

Exposure Draft should also have templates on presentation to avoid inconsistency in the presentation