

Part One

IFR4NPO Project-JMK/Comments/01/2021

Consultation Paper by the Chartered Institute of Professional Finance Association (CPFA)- London in conjunction with Humentum

Discussion Topic-What are NPOs?

In Uganda, the only proper definition is in the NGO Policy document of Oct-2010 and the Local Government Act. The policy defines an NGO as, any legally constituted private voluntary grouping of individuals or associations involved in community work which augment government work but clearly Not for Profit or commercial purposes. These may be national, regional, international or community-based organizations.

Should we define them by what they do? their characteristics, what they don't do? by how they are financed? by who owns them or who benefits from them?

- a) **Question**-Why do we call them what they are not for (NPO) rather than what they are for? Why would one call a woman a non-man or a Ugandan a non-Ugandan?
- **Suggestion1**-Profit oriented businesses are called For Profit organizations (FPOs) because their objective is profit. Public sector entities are called public sector because they serve the public sector offering a public service. Why shouldn't Social Benefit or Philanthropic organizations be called a similar name based on whom they serve or the service they offer rather than what they are not for?
 - **Suggestion2**-Why don't we call them 'Social Benefit organizations (SBOs), 'Civil Society organizations (CSOs), or Philanthropic organizations (POs)
 - **Suggestion3**-Public sector financial reporting standards are called IPSAs even when they are not for profit. The word NFP would therefore be confusing since it does not exclude public entities
 - **Suggestion4**-Non-Profit is a bit negative. Are they Not-for-Profit Organizations (NPO) or Non-Profit Organizations (NPO)? These organizations are actually profit depending on how you define profit. From a commercial sense it may mean money, from a social sense it may mean benefit, value addition. Even from a commercial sense, some NPOs engage in businesses for profit to sustain them. Are they non-profit? no but they are non-profit distributing entities. Biblically **Isiah 48:17**, God tells Israel that, "*I am the Lord your God, who teaches you to profit...*". The context was being relevant, productive, and value adding. By calling them non-profit would send a wrong signal of being unproductive and irrelevant.

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IFR4NPO Project-JMK2

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Review of Chapter 2, Pages 21-31-Who are NPO stakeholders and what are their needs?

2.1 General comments

Given that I have argued that the IFR4NPO could use the theoretical framework rather than a conceptual framework, this chapter will require using the stakeholder theory. According to Pfeffer & Salancik (2003), the key to an organization's success is its ability to acquire and maintain resources. In order to acquire and maintain resources, an organization needs to engage in negotiations and transactions with entities from its environment.

A stakeholder is any group/individual who can affect or is affected by the achievement or non-achievement of an organization's objectives, Freeman (1984).

2.2 Sections 2.1-2.6-Objectives that included;

Objective one-To improve the quality, transparency, and credibility of NPO financial reports

Objective two- To support the provision of NPO financial information that is useful for accountability and decision making

Comments

2.2.1-These were well articulated and emphasize my argument to change from financial reporting to accountability reporting.

2.2.2-Can we add performance evaluation to the second objective or make it stand alone given that performance evaluation would indeed be improved if more information is disclosed?

2.3 Sections 2.7-2.12- mentions stakeholders as regulators, resource providers, service users, and

My comments

- a) *This list is missing important stakeholders such as beneficiaries, employees, management, politicians, and similar civil society organizations?*
 - *Under the principal of going concern concept, for an NPO to survive especially in Uganda/Africa, it must be in good standing with the political demands of the*

ruling party otherwise many have been closed such as the Democratic Governance Facility (DGF),

Their information needs may be met under regulators but some issues may not be expressly stated but implied by their utterances

- Employees are an important resource of an organization's survival. Including their information needs would contribute to their stay or survival of an organization.
- Board and Management are charged with the stewardship of an organization's resources. Given that financial statements prepared under the accountability and stewardship theory will require information that demonstrates board/management accountability/performance. A reader would love to know how the board plus management performed on their key duties.
- Beneficiaries-I presume that all NPOs are created and continue to exist only if they meet their mission which in many instances is to help beneficiaries. Readers would love to get testimonies in form of pictures, interviews from beneficiaries to assess the impact of their good will.

2.4 Sections 2.13-2.18-The information needs of the four listed stakeholder categories were not mentioned. It would be good to list the information needs and how the IFR4NPO is going to meet those information needs.

For example, you mention information needs such as;

- Achieving strategic objectives-where and how will the IFR4NPOs present this information?
- Economy, Efficiency and Effectiveness
- Compliance
- Financial health

My Comments

The information above is not matched to which stakeholders and hence the likelihood of missing certain information. Secondly, will the various stakeholders be consulted? Thirdly, a table like the one below should be developed as a checklist.

Stakeholder	Information needs	Where in the Financial/Accountability Report?
<i>Resource provider's e.g. donors?</i>		
<i>Regulators</i>		
<i>Service users</i>		
<i>Beneficiaries</i>		
<i>Politicians</i>		
<i>Other civil society organizations</i>		

<i>Board/Management</i>		
<i>Staff</i>		

2.5 Section 20.0 -This project will assist in meeting the high-level information needs of most stakeholders

Comments

When shall we get the opportunity to know how such assistance will look like/shouldn't we have a sample report?

Regards

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Part One

IFR4NPO Project-JMK3

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Chapter 3-What are the essential aspects of NPO financial reporting guidance?

Introduction

Financial reporting frameworks are based on concepts that are aligned to their overall objectives. **Concepts underpin the standards and other guidance within financial reporting frameworks to provide coherence.** Similarly, NPO financial reporting Guidance needs to be developed using **core premises** aligned with the **objectives** of the Guidance:

Objective 1: To improve the quality, transparency and credibility of NPO financial reports.

Objective 2: To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

Objective 3: To address specific NPO issues, which will promote increased comparability of NPO financial reports

Comments on the above

- 1) Why don't we first develop the concepts/principles that will underpin the guidelines that we are trying to develop?***

Figure 3.1-Comparison of the different bases of accounts against the project objectives-The conclusion is that we should use the accrual accounting.

Suggestion

- 2) If accrual implies matching revenue with expenditure. Modified accrual would be the best to avoid depreciation of assets, whose major objective is to match revenue with expenditure yet this may not be relevant to NPOs.***

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IFR4NPO Project –Part1-JMK Comments-04-2021

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Chapter 4-How can the existing international financial reporting frameworks assist NPOs?

Issues/References	My Comments
Chapter 4 has highlighted that limitations of time and resources mean that the Guidance must draw on existing frameworks. International financial reporting frameworks are proposed as the basis of the Guidance, with each having its advantages and disadvantages.	• Although the issues of time and money may be true, they would not justify using a fundamentally different criteria to design a Guidance for NPOs. We have been without standards for so long, why the hurry now into something that is hinged on inapplicable frameworks? Secondly, that we could phase the development but do it using a proper basis.
4.a Do you agree that international frameworks are the best start point for the Guidance? If not, why not?	• Yes and no. Yes because of the international acceptance but no because, whatever we develop as long as it is acceptable, it will become internationally accepted. • Secondly, the issue of internationality comes in after international acceptance rather than where the guidance started. The individual jurisdictions, because they were primarily developed to meet NPO unique needs but of a particular jurisdiction, would be a better foundation whose jurisdictional material can be eliminated as long as it does not suit international taste. • Thirdly, the international frameworks especially the IFRS (full & 4SMEs) were primarily designed to address profit-oriented entities and may not in any way as quoted in section 4.20 of the consultative paper, did not have NPOs in mind. If the framework (foundation-Psalms 11:3) is faulty, how can we rely (credibility) on the walls and the roof or floors on it?

	• Fourthly, the compared jurisdictions, do not include regions where NPO are most relevant such as Africa, South America and Asia. All the jurisdictions are in 'donor' countries rather than 'user' countries. • There is a user Guide that was developed by the Asia Pacific Philanthropy Consortium based in Ateneo De Manila University on Loyola Heights, Queszon City, in Philippines. The consortium was made of nine countries namely; Bangladesh, China, India, Indonesia, Pakistan, Philippines, Thailand, Hong, and SAR. I find this the most and best starting point for this project.
4.b Do you agree with the criteria that have been used to assess the suitability of the existing international frameworks? If not, why not and what other criteria do you believe could be used and why?	• Criteria one would be the most and only logical basis because based on the usefulness principle, the best criteria should be addressing user information needs. All the international frameworks do not address the NPO user information needs under 2.13 as discussed below; ✓ "Is the NPO achieving its objectives?"- Given that NPO objectives are usually non-financial, how can financial statements benchmarked on profit oriented frameworks provide information that meets the needs of users whose motives are not financial but social and philanthropic? ✓ The NPO maximizes economy, efficiency and effectiveness? The international standards were not designed to answer any such concerns and may never be a useful starting point. The Input-output-outcome-impact (IOOI) model would be more useful, ratio analysis, a separate narrative report with defined guidance on the contents would be more meaningful; ✓ Compliance with regulations-To what extent is this financial? Except for IPSAS, the IFRS may not address such a need. ✓ Longer term financial health- Sustainability-All frameworks would address this issue but the disclosure and details may be different. Listing of all donations/funders with amounts, years, projects and assessment of renewal or confirmation of their willingness to continue would be a requirement from auditors of such institutions.

	The criteria of preparers, auditors, and users being familiar and easily able to use the framework does not merit because what matters is usefulness. Auditors and prepares will learn whatever has been developed.
4.c Do you agree with the high-level assessment of the existing international frameworks against these criteria? If not, why not? What assessment would you make and why?	The assessment is spot on. Section 4.24 states that none of the frameworks covers NPO special issues and therefore IPSAS would be a better foundation. 4.42 states that none of the frameworks meets objective no.3. It is because of this reasoning that I would advocate for a completely new basis for preparation of NPO Financial Statements. Both cash and accrual accounting have been used by Public entities for so long. Why wouldn't NPOs also do the same given that accrual accounting would be cumbersome, complex which are the reasons being advanced against IFRS in favor of ISPAS?

Regards

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