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Dear Karen and team

**Submission on Part 1 of Consultation Paper
International Financial Reporting for Non-Profit Organisations (IFR4NPO)**

Thank you for the opportunity to make a submission on the above Consultation Paper (CP). As a member of the IFR4NPO's Practitioner Advisory Group (PAG), and a member of the research team that undertook in the CCAB Commissioned research in 2013/14 (Crawford et al., 2014) that is referred to in the CP, I am very supportive of the IFR4NPO project.

I believe it is important that there is a set of internationally-acceptable and legitimate standards for a broad range of non-profit organisations (NPOs). Unlike most jurisdictional non-profit standards (where they exist) that are focused on NPOs that could be defined in Commonwealth countries as charities, IFR4NPO guidance could assist a wider population. This broader reach is necessary due to the increasing number of social enterprises,¹ and other social-purpose entities that do not fit a for-profit or public sector reporting model.

Please note that my responses to the questions in this CP are made in my personal capacity and cannot be seen to reflect the views of the New Zealand Accounting Standards Board of which I am Chair, nor of Victoria University of Wellington. I have drawn on my published research to underpin specific points and for empirical insights into my reasoning behind. While outputs from Crawford et al. (2014) as well as Cordery and

¹ I am unaware of a global statistic of the numbers of new social enterprises, but p.53 of Pothipala, Keerasuntong and Cordery (2020) references the growth in a number of countries.

Sim (2017) reflect research on NPOs generally, other research (as is common in NPO research) has used data obtained in respect of regulated charities.

My answers to the questions in the CP are provided below. I trust these are helpful in the project's deliberations.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Carolyn Cordery', with a long horizontal flourish extending to the left.

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General Matters for Comment 1

Chapter 1 has outlined a broad characteristics approach to describing NPOs for developing the Guidance:

1.a Do you agree with the broad characteristics proposed in Chapter 1 for describing NPOs? If not, why not? Which alternative characteristics would you propose, and why?

1.a. Yes. There is a broad range of options available (as noted in the Supplementary information to the CP). Much time could be spent developing a finer definition, but allowing the approach to be broader rather than narrower to enable wide international applicability is a sensible approach.

General Matters for Comment 2

Chapter 2 has examined NPO external stakeholders, what information those external stakeholders need for accountability and decision-making purposes, and issues with current arrangements.

2.a Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability? If not, why not? What alternative groups would you propose NPOs can be accountable to, and why?

2.b Do you agree that external stakeholders require information on an NPO's achievement of objectives, economy efficiency and effectiveness compliance with restrictions and regulations, and longer-term financial health, for accountability and decision-making purposes? If not, why not? What alternative areas would you propose and why?

2.c Do you agree with the issues that have been identified with current accountability and decision-making arrangements for NPOs? If not, why not? Are there any other issues with current accountability and decision-making arrangements, particularly financial accountability to donors, that you would wish to highlight?

2.a. Yes, these are the **main** stakeholders to whom NPOs are accountable. However, the literature also argues that internal stakeholders are owed accountability and some use general purpose annual reports (GPFR) to gain that information (see, for example, research into NPOs by Cordery & Sim, 2017). It could be expected that the reporting system put in place to support GPFR will also benefit managers, board members and staff who may be concerned about the NPO's financial sustainability. Further, when GPFR includes the need for nonfinancial reporting, such a system will also benefit decisions made about service delivery. While this system supports GPFR and internal stakeholders may use GPFR, it is questionable whether IFR4NPO guidance should be specifically modified for this group.

2.b. Yes. However, paras 2.15 and 2.31 suggest that, in assessing accountability and making future decisions on providing resources to an NPO, stakeholders will desire demonstration that the NPO 'maximises economy, efficiency and effectiveness' ('the three Es'). Whilst I agree that the 'three Es' are important, it would be preferable that this stated that stakeholders consider whether an NPO 'optimises' the three Es, rather than maximising them. Often an NPO is constrained in the extent to which it can maximise its resources, for example when resources have historical or legal restrictions.

2.c. Yes. While chapter 2 is more focused on the accountability needs of specific stakeholders, it is also important to consider information needs in respect of decision-making (as in: International Public Sector Accounting Standards Board, 2014). Decision-making is often based on past accountability and resource-providers' experiences as shared with others. Further, while many charity regulators concentrate on 'accountability and transparency', the concern about the public's trust and confidence in a number of jurisdictions (Cordery & Deguchi, 2018) is evidence that reputational effects of well-discharged accountability also impacts future decisions.

Crawford et al. (2014) observed many of the issues the CP raises about current arrangements such as diversity in financial reporting requirements and donor-driven reporting requirements. Further, as highlighted in Part 2 of the CP there are many NPO transactions that lack suitable financial reporting guidance.

General Matters for Comment 3

Chapter 3 explains the two key premises for developing the Guidance so that it supports the provision of information that is useful for accountability and decision-making.

3.a What, if any, do you see as the main challenges with Guidance that is accrual-based?

3.b What, if any, do you see as the main challenges with Guidance that includes non-financial information reporting?

3.a. The challenges of implementing Guidance that is accrual-based are well described in the CP. However, the development of technology to assist NPOs to report more easily is a factor that may ease concerns about accrual reporting. Further, prior research (e.g. Cordery & Sim, 2014) and the experience of regulators shows that, even when NPOs are not required to use accrual accounting, they often choose it over cash accounting. This is because of the superior financial management that accrual accounting allows. Nevertheless, the cash-accrual 'logic' is often contested (Cordery et al., 2019).

3.b. The challenges of implementing Guidance to report non-financial information are described in Issue 10 in Part 2 of the CP. High levels of judgement are required in respect of: attribution issues, measurement issues and agreeing an appropriate reporting framework (Cordery & Sinclair, 2013; McConville & Cordery, 2018). Nevertheless, in order to really appreciate how an NPO has achieved its objectives, it is imperative that the NPO sets goals and measures its progress towards these. This also applies to service delivery where measurement of 'what works' and 'what doesn't work' can assist in further development of quality services. Without measurement of non-financial performance, the achievement of NPO effectiveness and efficiency cannot be asserted.

General Matters for Comment 4

Chapter 4 has highlighted that limitations on time and resource 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.

4.a Do you agree that international frameworks are the best start point for the Guidance? If not, why not?

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?

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?

4.a. Yes. There is a need to build on what is available and this is a pragmatic approach.

4.b. Mostly. A Conceptual framework to underpin standards would include specific statements about who the users are and what user needs will be met through financial reporting that is prepared using those standards. The CP states who the users are and that they have needs for both accountability and decision-usefulness. Nevertheless, two of the frameworks chosen for comparison (IFRS and IFRS for SMEs) do not have the same focus on both accountability and decision-making as the IPSAS.

4.c. Yes. The assessment is fine, except for a lack of focus on the core users and their needs as stated in the answer to 4.b.

General Matters for Comment 5

Chapter 5 has put forward a proposed model for developing the Guidance.

The proposal uses the *IFRS for SMEs* Standard as the foundational framework and draws on full IFRS Standards, IPSAS and jurisdictional-level standards to develop the Guidance.

5.a What do you see as the main challenges, if any, with the proposed Guidance model and the use of the *IFRS for SMEs* Standard as the foundational framework? What, if any, alternative model and/or foundational framework do you suggest would be more suitable and why?

5.a. There is no doubt that the IFRS for SMEs has a shorter, simplified and standalone structure that allows entities that do not have public accountability to make reduced disclosures. It is used/allowed to be used by entities in a number of countries, however the CP lacks information on how readily available the standards are to preparers, evidence on how many practitioners are totally familiar with the standard (as asserted in para. 4.26) and whether it would deliver the ‘standardised reporting’ that appears to be a goal of the IFR4NPO project (see, e.g. para. 4.18). Upcoming changes to the IFRS for SMEs could bring further risks and opportunities.

I would prefer that consideration was given to IPSAS as a starting point for the IFR4NPO Guidance as the Conceptual Framework has similar users and needs. I note that New Zealand has developed ‘Tier 2’ public benefit entity standards using IPSAS that have reduced disclosures for smaller public sector entities as well as NPOs that do not have public accountability. For entities that are medium-sized New Zealand’s accrual-based ‘Simple Format Reporting Standards’ for NPOs also provide a tailor-made option that is stable (External Reporting Board, 2013). Other jurisdictions may have relevant frameworks for NPOs (beyond merely charities) that could be assessed using the table in Chapter 4 with the addition of users and their needs.

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