

Russia Club of Accountants and Auditors of NPOs

General Matters for Comment 1

Chapter 1: What are non-profit organizations?

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?

In general, we agree with the characteristics given in the Guidance. One of our team members has expressed a dissenting opinion, which is reproduced below.

Generally “broad characteristics approach” is OK, but some elements are still unclear:

- (1) Should a political party be treated as NPO using this approach? Both approaches are possible so clarity is needed.
- (2) It is not clear if organisations ruled by the governments to be treated as NPOs? For example in Russian jurisdiction there are so called “state corporations” like Rosatom (is responsible for nuclear facilities and export of nuclear technologies), Roskosmos (is responsible for space exploration) etc. Such corporations are named as non profit organisations in Russian legislation. Though they are not part of government but government appoints top management of such corporations, and determines strategic directions of these entities development.

It looks more reasonable to exclude such entities from the scope of IFRS4NPO because main stakeholder (the state) has very special requirements to management and reporting of such corps and it is very different from all other NPOs.

General Matters for Comment 2

Chapter 2: Who are NPO stakeholders and what are their needs?

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?

no comments, we agree

General Matters for Comment 3

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

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**?*

Accrual based reports usually don't allow reader to get from the first glance one of the main info: unallocated funds (reserves) available for NPO. To get this figure additional calculations are needed (exclude influence of debtors/creditors, amortization of fixed assets (FA) etc). Before 2021 in Russian jurisdiction, there was accounting standard for fixed assets (PBU 6/01), which required NPOs to recognize the full cost of fixed asset immediately as soon as FA were put into service. Such approach looks more reasonable and easier for donors than multi-year amortization. (In case of amortization, funds provided by a donor will look like unspent for some years though actually funds are not available for NPO anymore as soon as FA is purchased). This could have also legal implications because funds could be provided with precondition to be spent within limited period (1 year for example), and amortization will stretch far beyond this period, so from accrual point of view funds provided will not be spend on time, and this is formal violation of donor's will and could have tax consequences.

Similar situation is with donations. NPO can have an agreement with a donor with sum of promised donation and transfer schedule fixed. However, if donor violate any of his obligations or all of them, then NPO will do nothing in most of such cases, because reputational losses for NPO in case of litigation with a donor are potentially much higher than any single undeceived donation. Therefore, accrual of donation is possible but cash based recognition looks much more reliable...

Therefore, from this point of view "modified accrual" approach looks better. ("Modified accrual" – most of economic events and transactions are recognized on accrual basis but some may be recognized on cash basis.)

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

3b. We see “allocation” issue as one of the main challenges for NPO reporting. For example, some organisations distribute full Director’s salary, office costs etc between the core programs. So the reader of the report cannot see full organizational support (or indirect) costs. Therefore, the biggest challenge is how to standardize this approach to make reports of NPOs comparable.

General Matters for Comment 4

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?

no comments, we agree

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?

No matter which IFRS standard is used as foundational framework there will be number of NPO related issues which to be treated differently in IFRS4NPO. No framework should prevent from using approaches most suitable for NPOs.

We will prepare detailed comments on this issue in the responses to Part 2 of the Guidance.