

Karen Thompson
IFR4NPO Project Lead
CIPFA

28 July 2021

Dear Karen,

The IFR4NPO consultation

I write as Chairman of the Honorary Treasurers' Forum, a membership body representing the interests of those Charity Trustees who are responsible for financial matters. We are pleased to attach our response to the questions in Part 1 of the IFR4NPO consultation.

This supplementary letter expresses our wider concern that the project may not be able to fulfil its ambition despite the best endeavours of those involved.

There is currently a wide gap between the standard of financial reporting by NPOs in the best and worse served jurisdictions. It is hard to see that a new single framework can bridge that gap whilst remaining accessible to everyone, or even worse, avoid dumbing down for those who are already financially sophisticated. In the for-profit arena, tiering and thresholds take out the smallest organisations from some elements of compulsory financial reporting. Public accountability and other stakeholder considerations in the non-profit arena make this a contentious approach; it is likely that special purpose reports would still be required.

Most importantly though, for a new standard to launch it needs the active support of international standard setters. Although there is some appetite globally, in the richest and most influential jurisdictions, for historical reasons standard setters continue to work largely independently. In the UK we already struggle as our SORP has developed far beyond the minimum requirements of FRC. The IFR4NPO project's own analysis shows a number of differences in NPO-specific financial reporting, circles which would have to be squared.

There are other practical subsidiary issues including access to funding for the later stages of the project and its timing in a pandemic, when there are many unplanned calls on participants' time and resources.

Having said this, we do support the convergence of global NPO standards for all the good reasons behind the inception of IFR4NPO, and are impressed with the project's professionalism and the commitment of the project office and technical volunteers.

Please contact our Trustee, Nicola Silverleaf (nicola.silverleaf@honorarytreasurers.org.uk) direct if you have any queries or observations.

Yours sincerely,

A handwritten signature in grey ink, appearing to be 'B. Gordon', with a long horizontal flourish extending to the right.

Bruce Gordon
Chairman, The Honorary Treasurers Forum

IFRNPO Guidance

January 2021

Response Document

PART 1: GENERAL NPO FINANCIAL REPORTING ISSUES

Instructions for completion

IFR4NPO has published this document for respondents to use for submitting their comments.

This document presents all of the questions in **Part 1** of the Consultation Paper with spaces for responses.

Respondents are encouraged to complete this document electronically but are not required to use this document. They may also respond using their own comment letter format or the online survey available at: <https://www.ifr4npo.org/cp-survey/>

Comments on **Part 1** are requested by **30 July 2021**

Information requested from all respondents

Name¹:

Nicola Silverleaf

Email address:

nicola.silverleaf@honorarytreasurers.org.uk

Description of your role if responding as an individual:

Responding on behalf of the Honorary Treasurers Forum

Description of the activities of the organisation where responding on behalf of an organisation:

Membership Charity representing the interests of Charity Trustees who are Treasurers.

Jurisdiction(s) to which the feedback relates:

UK

Accounting basis of NPO financial reports in the jurisdiction in which you mainly work:

(i) Accrual

Please provide any additional information on accounting basis in this box.

Financial reporting standard use by NPOs in the jurisdiction in which you mainly work

(v) NPO specific standards/guidance based on IFRS

SORP FRS 102

¹ Name of person providing the response and whether this is in an individual capacity or on behalf of an organisation.

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.

☒ *Agree*

☐ *Disagree*

This document has been designed purely to enable feedback to the IFR4NPO consultation. The responses will be used to shape the development of the IFR4NPO Guidance and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses to the consultation will be public, but personal contact information will not be disclosed. Participation in this consultation is undertaken on an entirely voluntary basis. Personal information will only be held for the purposes of the project. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at IFR4NPO@cipfa.org

Information requested only if the organisation on behalf of which you are responding is an NPO

Which International Classification of Non Profit Organisation (ICNPO) group best describes your organisation and activities?²

2. Education and research - Organizations and activities administering, providing, promoting, conducting, supporting and servicing education and research.

A membership body representing the interests of UK Charity Honorary Treasurers

Rank revenue sources of your NPO in order of importance (optional)

	1	2	3	4	5	6
(i) Grants	☐	☐	☐	☐	☐	☐
(ii) Donations	☒	☐	☐	☐	☐	☐
(iii) Sale of goods and services	☐	☐	☒	☐	☐	☐
(iv) Gifts in kind	☐	☐	☐	☐	☐	☐
(v) Services in kind	☐	☒	☐	☐	☐	☐
(vi) Other	☐	☐	☐	☐	☐	☐

Please provide any further information on revenue source including description of Other in this box.

Approximate total revenue per annum of your NPO in US\$ (optional)

50,000

Membership income is a blend of individual and corporate members.

² http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP19_1996.pdf

General Matters for Comment (GMC)

Introduction

Part 1 of the Consultation Paper discusses the broader NPO landscape and considers this in the context of the project objectives set out in the Introduction. Part 1 includes a description of the broad characteristics of NPOs. It considers accountability and decision making and the role that general purpose financial reports can play in providing decision useful information for external stakeholders. Finally, it looks at the suitability of existing international and national financial reporting regimes as the basis of future NPO Guidance.

Comments are welcome on any or all of the parts in the Consultation Paper. Please note:

- There is no requirement to respond to all issues
- You may respond to all of the questions raised in the Consultation Paper or may choose to respond only about certain elements
- There is no minimum number of questions that can be addressed in a response. But, the greater the number of responses received, the richer the feedback for the project team to consider.

Contents

Chapter 1 *What are non-profit organisations?* outlines a broad characteristics approach to describing NPOs for developing the Guidance

Chapter 2 *Who are NPO stakeholders and what are their needs?* examines NPO external stakeholders, what information those external stakeholders need for accountability and decision-making purposes, and issues with current arrangements

Chapter 3 *What are the essential aspects of NPO Financial Reporting Guidance?* explains two key premises to develop the Guidance to support the provision of information that is useful for accountability and decision-making

Chapter 4 *How far can existing international financial reporting regimes assist NPOs?* highlights 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

Chapter 5 *Proposed way forward* puts forward a proposed model for developing the Guidance. The proposal uses *IFRS for SMEs* as a foundational framework and draws on full IFRS, IPSAS and jurisdiction level standards to develop the Guidance

Each Chapter provides General Matters for Comment (GMCs)

Chapter 1 *What are non-profit organisations?* outlines a broad characteristics approach to describing NPOs for developing the Guidance.

GMC 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?

Broadly agree.

Chapter 2 *Who are NPO stakeholders and what are their needs?* examines NPO external stakeholders, what information those external stakeholders need for accountability and decision-making purposes, and issues with current arrangements.

GMC 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 that NPOs can be seen as accountable to, and why?

The accountability of non-profits has developed according to the historical development of the sector in different jurisdictions and the fluctuating role of the state. Eg driven by tax concessions to the donor or more general regulation of the sector on behalf of wider society. This can mean different information needs are met by legislating at donor, recipient or societal level.

GMC 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?

Information in financial statements is traditionally based on economic decision-usefulness. On that basis, can an accounting standard realistically meet the needs of all stakeholders? Acknowledging budgetary constraints on development and monitoring of standards may mean prioritisation of some stakeholder cohorts whose needs cannot be met elsewhere. Use of stakeholder analysis tools such as Johnson & Scholes?

GMC 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?

See above. Also consider level of scrutiny required to assure, especially, financial accountability to donors, which has been the subject of special purpose reporting outside the scope of a standard. An objective of the IFR4NPO project is to address multiple funding fraud. Hard to see how this can be ensured or even strengthened by standard setting alone.

Chapter 3 *What are the essential aspects of NPO Financial Reporting Guidance?* explains two key premises for developing the Guidance so that it supports the provision of information that is useful for accountability and decision-making.

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

In the UK there are already problems with the binary nature of accruals (“true and fair”) accounts v the minimalist alternative of Receipts and Payments which can be adopted by the vast majority of non-company charities. Previous SORP has dealt with this by setting the size criteria to take most non-company charities out of SORP, and hasn’t been able to agree to apply existing FRS for smaller or micro organisations. “Thinking small first” globally is even more challenging - the problem is not so much accruals accounts, but with finding good enough low cost alternatives for smaller NPOs.

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

In the UK non-financial information is assumed to be the Trustee Annual Report? This is supplemented by Charity Commission Annual returns which include additional information, but there are other codes of practice whose provisions could usefully be included within the TAR or elsewhere, depending on the nature of external scrutiny required. Measurement of effectiveness such as impact is subjective and arguably beyond the skill-set of the financial auditor. The main challenge is that charities use their websites and other digital means to provide information which is not regulated, is cheaper and easier to produce, and because it is regularly refreshed is not a permanent record. There is a risk that adding additional information into the annual financial statements is perceived as adding expense but little benefit to users of the information.

Chapter 4 *How far can existing international financial reporting regimes assist NPOs?* highlights 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.

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

Provided that convergence is achievable within a sensible timescale. The alternative is starting from scratch or failure to agree on specific issues. Some jurisdictions are further on than others in providing NPO solutions which are locally applicable but may therefore not be easily transferrable internationally. Where there are dual regulators, for example Companies House as well as the Charity Commission in England and Wales, there needs to be an established process to keep standards compatible.

GMC 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?

The analysis in the consultation document was thorough and helpful. The main issue is the willingness and capacity of the IFRS or IPSASB to widen their remits to include NPO reporting, otherwise it all becomes a bit theoretical because it can't be implemented or enforced.

GMC 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?

Not reviewed in detail.

Chapter 5 *Proposed way forward* puts forward a proposed model for developing the Guidance. The proposal uses the *IFRS for SMEs* Standard as a foundational framework and draws on full IFRS Standards, IPSAS and jurisdictional-level standards to develop the Guidance.

GMC 5(a) What do you see as the main challenges, if any, with the proposed 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?

A major challenge in the UK is capacity of the SORP making body to agree how FRS1021a and FRS105 can be made applicable to UK charities, given the additional level of disclosure required by SORP in comparison with FRS. At that point the second half of the consultation about adopting consistent accounting treatments becomes more relevant.