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**Re: International Financial Reporting for Non-Profit Organizations (IFR4NPO)  
Consultation Paper, Part 1: General NPO financial reporting Issues**

Thank you for the opportunity to provide input on the Chartered Institute of Public Finance & Accountancy (CIPFA) and Humentum's joint initiative to develop international financial reporting standards for the non-profit sector. We appreciate the leadership this consultation represents for such a significant sector of the economy.

The [Public Sector Accounting Board \(PSAB\)](#) is one of Canada's independent standard-setting boards. PSAB serves the public interest by establishing high-quality accounting and financial reporting standards and other guidance for public sector entities in Canada.

In Canada, not-for-profit organizations (NFPOs) outside the public sector apply the accounting standards issued by the Accounting Standards Board (AcSB). The Canadian AcSB will be submitting a separate response to the IFR4NPO Consultation Paper. Not-for-profit organizations in the public sector, controlled by government are referred to as government not-for-profit organizations (GNFPOs), apply the accounting standards issued by PSAB. GNFPOs are defined in the Introduction to Public Sector Accounting Standards of the Public Sector Accounting Handbook.

In Canada, GNFPOs may be fewer in number than private sector NFPOs but tend to have higher revenues. Some examples of GNFPOs may include hospitals, colleges, school boards, and museums. Our experience in Canada indicates that there is a fundamental difference between NFPOs that are created and controlled by government and NFPOs that are privately created. Therefore, the comments provided below are based on our experience with GNFPOs

or NFPOs in the public sector and recommend consideration of whether the organization is government controlled or not, in the development of the Guidance. The selection of accounting standards where multiple choices exist may impact the comparability of financial information.

Overall, we support the need for guidance in the not-for-profit sector in those jurisdictions where there is no guidance. Such guidance will improve the transparency and decision usefulness of information for stakeholders. Applying a broad characteristics approach to identify the sector is appealing as it will lead to similar organizations applying similar standards, improving the comparability and understandability of the financial statements.

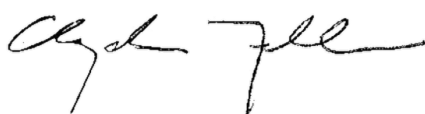
There are some advantages of using *IFRS for SMEs* as the foundational framework, especially when considering the smaller and less complex NPOs, such as religious organizations. However, using IPSAS as the foundational framework should be considered, especially for the larger, more complex NPOs, such as those in the public sector. For these larger, more complex NPOs, such as hospitals that are government controlled, using IPSAS as the foundational framework would provide better alignment between the objectives of the project, better recognize the four characteristics of an NPO and better serve the accountability needed to be demonstrated by these NPOs to their stakeholders for the use, management and maintenance of resources that have been entrusted to them.

Given the diverse nature of this sector, a one-size fits all approach may not be possible. Balancing the needs of the preparers and users, it might be appropriate to allow two frameworks depending on size, complexity of the NPO, and consideration of how the organization was created.

The comments set out in this letter and the appendix represent the views of PSAB, who received input from its [Government Not-for-Profit Strategy Committee](#), primarily pertaining to NFPOs in the public sector. The responses to the General Matters for Comment can be found in Appendix A.

We hope that you find these comments helpful.

Sincerely,



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*On behalf of the Public Sector Accounting Board (PSAB)*

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## APPENDIX A – RESPONSES TO SPECIFIC MATTERS FOR COMMENT

### 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?

### Response

Agree with a broad characteristics approach to describing the types of organizations most likely to fall within the scope of the Guidance. There is a diverse range of organizations that can potentially be considered as an NPO. This approach would consider the sector from a holistic perspective. That is, understanding the nature and the purpose of the organization to determine the accounting framework to be applied will provide relevant and comparable financial statements among similar type entities.

The following four characteristics described in the Consultation Paper seem reasonable:

- delivering services for public benefit;
- profits/surpluses are directed for public benefit;
- voluntary donations and grant funding may be significant; and/or
- assets are held and used for social purposes.

Many of these characteristics are similar to the characteristics of public sector entities (governments and other government organizations) in Canada. As noted in PSAB's [proposed conceptual framework](#), public sector entities exist to serve the public, by for example, providing goods and/or services or by being stewards of public resources<sup>1</sup>. Because public sector entities are entrusted with public resources and responsible for how public resources are used, managed, and maintained, they are ultimately accountable to the public.

It will be in the public interest for similar type organizations to apply similar standards. This will help make the financial statements more relevant and understandable.

However, as noted above, given how closely these four characteristics align with the characteristics of governments and other government organizations, unintended consequences might occur. This may be because, as currently presented in the Consultation Paper (paragraph

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<sup>1</sup> PSAB's Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector".

1.14), these are all ‘and/or’ statements. Although it is noted in paragraph 1.12, that an NPO will likely display all of these broad characteristics to a greater or lesser extent and that they are intended to be indicators of an organization being an NPO rather than a set of rules, some additional guidance is needed. For example, one might argue that a utility company that is regulated by a government could meet some of these characteristics and thus be subject to the guidance. That is, they operate for the public benefit and surpluses of the company are redirected to provide for the public benefit. Therefore, consideration of making these all “and” statements should be done to avoid these unintended consequences. Additional guidance would also be useful to discuss the preponderance of evidence necessary to ensure there are no unintended consequences such as broadening the scope of application of the guidance to organizations that really should not be included but happen to be able to meet one of the characteristics.

**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?

**Response**

2.a Agree. NFPOs, especially from a public sector perspective or GNFPs exist to provide goods and services to the public. As stewards of public resources, they are accountable to the public for the use of the funds that have been entrusted to them and for the services provided.

2.b Agree. Given the NPOs embody the four characteristics as described in the Consultation Paper of:

- delivering services for public benefit;
- profits/surpluses are directed for public benefit;
- voluntary donations and grant funding may be significant; and/or

- assets are held and used for social purposes,

they are responsible for their decisions and actions on managing and allocating the resources entrusted to them. Stakeholders are interested in how the funds or resources provided have been used as well as in the quality and quantity of services provided. As noted in the Consultation Paper, NPOs have a broader societal accountability given the large number of stakeholders to whom an NPO may be accountable. In some cases, there is a direct relationship where resources are provided directly by a stakeholder either through a funding mechanism or donation. In other cases, there may be an indirect relationship where the organization may benefit from preferential tax treatment given the organization's status as a charity. In these circumstances there is an indirect use of public resources. Given these NPOs are entrusted with these public resources, this results in a responsibility for their stewardship. As resource providers and service users, the public demands public accountability regarding how public resources are used, managed and maintained.

Public accountability requires entities to fairly present financial information to the public. For financial statements to offer a fair presentation of the economic circumstances, readers need to be confident that the financial statements follow objectively determined concepts and standards.

There may be instances, as noted in the consultation paper, where some resource providers or service users may not be satisfied with general purpose financial statements and may require or request specific information related to the services or resources provided. It is not possible to anticipate all such requests and thus general purpose financial statements cannot contemplate such specific events.

2.c Agree. It should be emphasized that public accountability requires transparency in the reporting of both financial and non-financial information. Stakeholders look to financial statement information as a means of determining whether the resources entrusted to a NPO were used, managed, and maintained in an appropriate manner. The ability to use the financial and non-financial information to assess whether a NPO has fulfilled their responsibility for stewardship of the resources entrusted to them and to make more-informed decisions is pertinent to all stakeholder groups, not just donors.

### **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?

## **Response**

3.a Agree. Accrual based accounting provides a comprehensive view of an organization's financial position and performance. It improves the information that can be used to hold management to account and to make funding and other decisions.

As noted in the consultation paper, the challenge with accrual-based accounting is whether stakeholders understand the information presented, especially for the larger more complex transactions that some entities may have.

3.b Agree. Providing non-financial information is useful for stakeholders as it provides context and provides an opportunity to explain the financial results of the organization and how it is meeting its objectives.

The challenges with Guidance that includes non-financial information is whether the information can be verified and how easily the information can be collected. The information should be principles based as entities need to provide the information that is relevant for their purposes while maintaining its objectivity and neutrality. That is, it must be relevant and useful information for stakeholders to help assess the efficiency and effectiveness as well as the sustainability of the organization. However, providing non-financial information should not be an opportunity for management to present a biased view of the organization.

Another challenge related to including non-financial information in the Guidance is where this guidance will be taken from and will it be relevant for NPOs. Both IFRS and IPSAS only provide non-authoritative guidance (Practice Statements or Recommended Practice Guidelines, respectively) in this area. The Consultation Paper was not clear as to how this type of information will be included in the Guidance and what the source of the guidance will be.

### **General Matters for Comment 4:**

**Chapter 4** has highlighted that limitations on time and resources mean that the Guidance must draw on existing frameworks. International financial reporting frameworks are proposed as the basis for 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 could you make and why?

## Response

As noted in paragraph 4.09, the Guidance developed needs to cover all of the main economic events and transactions for which NPOs need to account, not just those events and transactions that are unique to NPOs. That is, the guidance should be robust and comprehensive to stand on its own without the need to look elsewhere for guidance on most transactions. Having said that, a GAAP hierarchy needs to be provided so stakeholders do know where to look for additional guidance in the event that an issue is not covered within the applicable Guidance.

4.a Agree. Given that the main objective of the IFR4NPO project is to develop global standards for non-profit organizations, it seems appropriate to base that guidance on one of the three international reporting frameworks rather than individual jurisdictional guidance.

4.b-c The three criteria used to assess the suitability of the existing international frameworks seems reasonable. However, we suggest that an additional criterion should be considered, and we do not necessarily agree with the conclusions reached under each criterion.

### Additional criterion

An additional criterion should be considered that takes into account how the framework aligns with the four characteristics of an NPO. This criterion is similar to the first criterion but goes further in looking at the underlying nature and objectives of the organization and how each framework fits these core principles of an NPO.

As noted in response to General Matters for Comment 1, it is our opinion that many of these characteristics are similar to governments and other government organizations in Canada and thus align more closely with the IPSAS than IFRS or *IFRS for SMEs*.

### Additional commentary on criteria assessment outlined in Consultation Paper

#### To what extent does the framework provide guidance on key NPO-specific issues?

Agree with the assessment in paragraph 4.24 that IPSAS performs better overall, particularly in areas related to non-exchange transactions and accounting for assets that are held for the services they can provide rather than for cash generation.

As noted in Figure 4.1, the aim of IPSAS is to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management, accountability and decision making. This objective compares to IFRS which are developed to be used primarily by for-profit entities or *IFRS for SMEs* which are designed to meet the needs of for-profit entities that are not traded on public exchanges or that hold financial assets in a fiduciary capacity.

This purpose of IPSAS versus IFRS or *IFRS for SMEs* is more closely aligned to the three objectives of the IFR4NPO project, especially when considering the need to provide information that is useful for decision making and accountability as well as addressing specific NPO issues.

**Will preparers, auditors and users be familiar with and easily able to use the framework?**

Paragraph 4.33 concludes that *IFRS for SMEs* is appropriate as it is a single standard, written in plain language and is aligned with the conceptual framework for IFRS.

One of the most significant challenges with developing Guidance in this sector is the diversity of entities within this sector. They can range from large, complex organizations at one end of the spectrum to the very small and less complex organizations at the other end. However, each is accountable to its members, users, and resource providers for the funds that have been entrusted to them to fulfil their objectives, as efficiently and effectively as possible.

Any standards issued need to be in the public interest. That is, the standards need to provide evidence of accountability and report information to help make assessments and judgments about an NFPOs operations and management. Therefore, the foundational framework chosen should closely align with the characteristics of the NPOs to provide relevant and transparent financial and non-financial information that will serve its stakeholders by demonstrating its accountability for the resources entrusted to it and allowing stakeholders to make more informed decisions.

Given many of the jurisdictions that this guidance is aimed to help do not currently have not-for-profit guidance, any new framework will provide a good basis for improving the credibility and transparency of an NPOs financial statements. In all scenarios there will likely be a learning curve to understand and apply the Guidance.

The use of plain language for the *IFRS for SMEs* is appealing and may be suitable for the smaller less complex NPOs to help balance preparer and user needs. As noted in the Consultation Paper, unfortunately there is no 'IPSAS for SMEs' to provide relief in situations that might warrant relief from the IPSAS requirements.

However, for the larger more complex NPOs such as those in the public sector, the fact that the *IFRS for SMEs* omits accounting topics irrelevant for non-listed entities may be problematic. As noted in paragraph 4.28, the disclosure requirements for *IFRS for SMEs* may not be appropriate for NPOs given the different accountability requirements these entities have versus non-listed private entities.

Also as noted in paragraph 4.16, one of the differences in conceptual frameworks between IFRS and IPSAS relates to the concepts around measurement. It was noted that many assets are held by public sector entities to deliver public services rather than to generate economic or financial returns. One of the four characteristics of an NPO, as described in the Consultation Paper, is assets are held and used for social purposes.

As noted in paragraph 4.24, IPSAS performs better overall, particularly in areas related to non-exchange transactions and accounting for assets that are held for the services they can provide rather than for cash generation.

Therefore, for the larger more complex NPOs, such as those in the public sector, consideration should be given to starting with IPSAS as the foundational framework as it lends itself more closely to the underlying nature and purpose of the organizations for which the guidance is being developed and would avoid significant gaps in the guidance. That is, IPSAS provides guidance on non-exchange transactions which would likely be significant for these larger, more complex NPOs.

**How feasible will the development and maintenance of Guidance under the framework be?**

Agree applying a simplified framework such as *IFRS for SMEs* that is updated approximately every five years might be easier.

Although IPSAS and IFRS are more complex, they provide a more robust framework. One of the arguments put forth in the consultation paper was that applying *IFRS for SMEs* would require less resources as updates only happen approximately every five years. Consideration should be given as to whether the regular updates of IFRS and IPSAS are really more demanding. When standards are updated or new standards developed, there is often an implementation period provided to allow stakeholders time to prepare. It might be easier to address changes one at a time rather than numerous changes every five years.

**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 foundation 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?

**Response**

Disagree with the proposal to use *IFRS for SMEs* as the foundational framework for all NPOs. Although applying any framework in those jurisdictions where there is currently no accounting guidance for NPOs will help improve the credibility and transparency of an NPO's financial statements, consideration is needed as to whether a one size fits all approach is appropriate given the diversity of the sector. Consideration should also be given to the fundamental differences between a NPO that is created and controlled by government and a NPO that is created privately.

As noted earlier, using *IFRS for SMEs* might be appropriate for the smaller less complex NPOs to help balance preparer and user needs. However, for the larger more complex NPOs, such as those in the public sector, applying IPSAS as the foundational framework should be considered.

The IPSASB's conceptual framework and financial reporting objectives align more closely with the objectives of the project, the four characteristics of NPOs, and will provide a comprehensive set of guidance that will help demonstrate the NFPOs accountability for resources and services provided to their stakeholders. IPSAS address many of the topics applicable to the more complex NPOs with a conceptual framework that recognizes some of the differences between NPOs and non-listed private sector entities such as holding assets to provide services rather than generating income. Using IPSAS as the foundational framework might reduce the need to look to jurisdictional-level standards thereby improving the comparability, consistency and understandability of the financial statements.

One of the challenges with the proposed model relates to the potential gaps in the guidance if *IFRS for SMEs* is used as the foundational framework. The Consultation Paper implied that the Guidance is expected to provide a full suite of financial reporting standards. However, the Consultation Paper was not clear on how the decision will be made to determine whether the gaps are filled with IFRS, IPSAS or jurisdictional-level standards. Although all three sets of financial reporting frameworks have a similar basis, picking aspects from each as well as particular jurisdictional-level standards, may impede the familiarity users have with one particular framework. Perhaps it would be better to develop a framework with one of the three international frameworks as the foundation and include a hierarchy of where to go and look for guidance when there is no guidance found.

Also, the readability and usability of the Guidance will be impacted as the full suite of financial reporting standards will no longer be in plain language.