

International financial reporting for non-profit organisations: the consultation paper – Part 1

Consultation issued by IFR4NPO in 2021

Comments from ACCA
July 2021

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the first part of the consultation on developing international guidance for financial reporting by non-profit organisations.

We very much support the broad aims of the proposals and consider that the Guidance will fill an important gap in global financial reporting which has been there for too long.

We provide our answers to the specific questions raised below.

RESPONSES TO THE SPECIFIC QUESTIONS ASKED

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?

Yes, we agree with the proposal.

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?

Yes, we agree with the stakeholders identified in the proposal. In addition we note that NPOs may also be accountable to members and/or supporters who are not in one of the groups identified. They may nevertheless be very interested in the NPO, may form part of the governance of the organization and may be the persons to whom the reports are formally addressed.

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?

Yes, we agree with the proposal. In addition, in paragraph 2.14 external stakeholders may also want the NPO to detail its objectives for the future, or if the NPO is only created for fixed term to serve a fixed set of objectives.

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?

We agree with the issues identified. On donors' financial requirements, we suggest that in developing the Guidance, IFR4NPO identifies information commonly required by donors/ funders and considers the extent to which the guidance might harmonise them, to reduce diversity and minimise the reporting burden.

We envisage that the Guidance may mostly be used in entity reporting rather than project reporting. That said, we also note that potential project donors may need to assess the overall performance and position of potential recipient NPO and the greater comparability and reliability of their entity financial reports will be of benefit to donors in doing this.

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

A key challenge will likely arise from the measurement of inputs that are non-monetary or received on complimentary basis and any related outputs.

For example, where the NPO receives tangible assets (building, motor vehicles, plant and equipment, land, etc), complimentary use of such assets, voluntary services received (complimentary medical services, tutoring, free labour, etc) and the receipt of food and medical supplies.

In addition, there are likely to be calls for a simpler system for small NPOs. Many of their stakeholders may have little understanding of accrual accounting and relate better to cash-based accounting. IFR4NPO should recognise that there may be a level below which their global standard might not be appropriate and leave national jurisdictions to determine such a threshold, if any.

We note that Figure 3.2 refers to financial statements containing audited information. Audits will not always be required by the jurisdiction.

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

Depending on the non-financial information to be reported, the challenge will most likely arise from cost of collating relevant data (eg, impact of activities by the NPO), reporting them in meaningful way, and getting the information assured (where relevant). This could be burdensome for small NPOs. Hence non-financial information reporting should be categorized into mandatory or core information (such as objectives, risks, strategy and achievements) and those which are recommended as nice to have.

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

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal.

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?

Yes, we agree with the proposal. In addition to the advantages noted of the IFRS for SMEs, there is greater freely available educational support provided by the IASB than for IFRS or IPSAS.

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?

We agree with using IFRS for SMEs Standard as the foundational framework. It will assist greatly in terms of educating and training accountants to use the Guidance.

A challenge may well be that IFRS for SMEs could be onerous for NPOs with regard to measuring certain assets at fair value such as investment property and agriculture.

As recognized in the model, additional guidance will be needed on NPO-specific issues such as measuring non-monetary inputs and providing reduced price (non-fair value or non-market price) services.

Using the IFRS for SMEs as the default or foundation of the standards in the way described raises the issue of whether the Guidance should be in the form of interpretations and amendments to IFRS for SMEs to address NPO issues, such as ACCA have done with the Companion Guide to IFRS for SMEs for not-for-profits¹. Alternatively, it could be a standalone set of standards incorporating much material verbatim from the IFRS for SMEs. We see arguments for both presentations. On balance the standalone may be most practical.

The standalone approach may also help in cases where the Guidance does not address a transaction or event. In these cases, accounting policies should be developed based on requirements and guidance in the Guidance before referring to other standards. Reference to full IFRS, IFRS for SMEs, IPSAS or jurisdictional-level standards should be permitted but not mandatory.

Given the foundation in IFRS for SMEs, the amendments for NPO-specific issues (some of which may come from IPSAS) may give rise to a need for the Guidance to

¹ <https://www.accaglobal.com/uk/en/technical-activities/technical-resources-search/2015/october/companion-guide-nfp-ifrs-sme.html>

identify the differences with IFRS for SMEs and the origin and rationale for those differences.

The IFR4NPO Guidance should be reviewed and revised on its own. Updates or amendments to IFRS for SMEs (or to relevant IPSAS) should not apply automatically to the Guidance to maintain its relevance to NPO issues and stability. There will be some material inconsistencies between IFR4NPO Guidance and other standards, both from the start and in future as different standards are revised.

While diversity may mean IFR4NPO Guidance would not meet all stakeholders' requirements, jurisdictional-level amendment should be limited and discouraged to preserve comparability.