

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:

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Chair, Audit Committee

and

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on behalf of
The Salvation Army in Canada & Bermuda

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Description of your role if responding as an individual:

Click or tap here to enter text.

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

The Salvation Army, an international Christian church and human services organization, operates in 132 countries around the world, through 63 administrative headquarters, such as the one in Toronto, Canada which provides oversight for the Army's activities in Canada and Bermuda.

Jurisdiction(s) to which the feedback relates:

This feedback relates to the countries of Canada and Bermuda.

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.

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

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

(viii) NPO specific standards/guidance based on National GAAP

Canadian private not for profit organizations use standards promulgated by the Accounting Standards Board and are based on Canadian GAAP for private enterprises with specific standards to deal with the unique transactions and issues faced by not for profit organizations. Canadian public sector organizations use standards promulgated by the Public Sector Accounting Board, although they are very similar to the standards for private not for profit organizations.

The country of Bermuda is also using Canadian accounting standards.

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

4. Social services - Organizations and institutions providing human and social services to a community or target population.

We are also a Christian church and provide religious services (#10)

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	☐	☐	☐	☒	☐	☐

Investment income.

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

USD \$850 million

Based on the year ended March 31, 2021

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?

We agree with the broad characteristics proposed in Chapter 1. We are not aware of any existing not-for-profit organization which would not fit under one or more of these broad characteristics.

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?

Generally, we agree that NPOs are accountable to service users, resource providers and regulators. Some NPOs, however, may not have broader societal accountability. For example, a membership association may not have any broad accountability to society outside of its own membership. Another example would be a church congregation that does not conduct any broad-based appeal for funds from the public. It is possible to meet the test of accountability to users, resource providers and/or regulators and still not have broad societal accountability in the same way that large charities who serve a broad cross section of society and seek funding from government and private donors.

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?

We agree that a focus on accountability and decision-making information needs of stakeholders is essential. The high-level summary of those information needs is a useful way to classify the broad and diverse needs of users. It may be helpful for the guidance to distinguish between outputs and outcomes as it relates to the presentation of non-financial information. "Delivering services" is usually an output, a means to an end, such as ending hunger or helping underprivileged youth to obtain a university degree, which is the desired outcome. In such cases, some organizations measure their objectives as the number of meals served, or hours of counselling provided, but these are but outputs associated with the achievement of the real objectives, which are the ultimate outcomes that the organization is trying to achieve. It is important that reporting for NPOs not only highlight on outputs, but also, and more importantly, outcomes. This will significantly increase accountability because

it would make NFPs become specific about exactly what outcomes their programs and services are intended to achieve.

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?

The paper does a good job of describing current issues with the multiple information requirements that NPOs face. The Salvation Army in Canada and Bermuda receives funding from hundreds of foundations and government entities, all requiring reporting in diverse formats, even though all of the accounting is in accordance with Canadian accounting standards for NFPs. The key question is whether a common framework will help solve some of these issues. While a common framework will certainly address issues of reporting at the organizational level, it seems unlikely, as the paper seems to acknowledge, that the needs of all users, particularly related to individual programs or projects, are likely to be met, and there will continue to be a proliferation of requirements that NPOs are still required to meet.

One further comment: the qualitative characteristics of information set out in 2.18 may be appropriate, but need to be accompanied by clear definitions. In particular, what does “reliable” mean, and how does one determine an objective standard of reliability? We believe that this is a characteristic that should be set aside if we are to significantly improve financial reporting. Both the IASB and the FASB have found it was impossible to define in a way that would be interpreted consistently and replaced it with “faithful representation” in the 2010 Framework, as follows:

“QC 12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course perfection is seldom, if ever, achievable. The Board’s objective is to maximize those qualities to the extent possible.

As explained in the Basis for Conclusions:

BC3.23 Unfortunately, neither [IASB or FASB] framework clearly conveyed the meaning of reliability. The comments of respondents to numerous proposed standards indicated a lack of a common understanding of the term reliability. Some focused on verifiability or free from material error to the virtual exclusion of faithful representation. Others focused more on faithful representation, perhaps combined with neutrality. Some apparently think that reliability refers primarily to precision.

BC3.24 Because attempts to explain what reliability was intended to mean in this context

have proved unsuccessful, the Board sought a different term that would more clearly convey the intended meaning. The term faithful representation, the faithful depiction in financial reports of economic phenomena, was the result of that search. That term encompasses the main characteristics that the previous frameworks included as aspects of reliability.

The confusion of reliability with verifiability and precision often results in attempts to exclude from financial reporting items or measurements that are of the most relevance to the understanding of an entity's performance. For example, in Canada the Accounting Standards Board originally intended to use the SME standard on financial instruments to let NFPs carry financial assets at the lower of cost or market value. It was NFPs like The Salvation Army that objected that the market values of their investment portfolios were relevant to an understanding not only of the financial stability of their programs but also the effectiveness of their investment management policies.

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?

We agree that the Guidance should be accrual-based, while recognizing that in many parts of the world, the cash and modified cash bases of accounting are still being used by many NPOs. The key challenge will be developing the capacity and systems within these organizations to be able to transition to accrual based accounting, although in our experience, even the smallest organizations can produce accrual based financial statements at least once a year. It may well mean that consideration will have to be given to an education and communications plan that is implemented over a number of years if the framework developed in the Guidance is to become a generally accepted framework for accounting for NPOs.

It is also important that the framework include a clear direct method cash flow statement in addition to the statements of financial position and financial performance.

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

Addressing the transition to accrual accounting will be a significant challenge for NPOs in some parts of the world, particularly for small organizations. Including requirements for non-financial information reporting will add another layer of significant challenge for some organizations. Consideration may have to be given to a two-phase project in which the financial reporting requirements are dealt with in phase one and non-financial reporting in a second phase.

It is often the case that non-financial information is provided in what is referred to as ‘annual reports’ along with summary level financial information, rather than a full set of financial statements. This form of reporting appears to be most useful to many users of NPO financial information, with the full financial statements available for those who need more information. We would be concerned if new standards made that approach unacceptable as we believe it fulfils the needs of many users of NFP financial 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?

We agree that international standards have to start from an international framework. From our perspective, it makes no sense to ‘re-invent the wheel’, and it will significantly increase the time required for the project.

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?

Yes. These criteria are appropriate.

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?

Yes, we agree with the assessment that has been made.

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?

We agree with the selection of IFRS for SMEs as the foundational international framework for the model, with the ability to look to IPSAS and IFRS for issues where IFRS for SMEs is silent. The proposed Guidance Model in Figure 5.1 presents a useful approach, i.e., to use as much material as possible that has already been developed based on a similar framework

and due process.

Figure 5.3 is also particularly helpful to the classification of types of entities that are to be the focus of the Guidance.

From a Canadian perspective, we think that this is the right solution in that our standards for NFPs are based on Canadian GAAP for SMEs, which, while not identical to IFRS for SMEs, is largely based on the IFRS framework.

The main challenge we see in implementation will be to get people to agree on the NPO-specific issues, especially since major standard setters have issued sector specific guidance on those issues that is not consistent across jurisdictions.

As a final comment, we agree with the need for the project. Many NFPs are international in scope and increasingly, they solicit funds from foreign donors. The Salvation Army operates in 132 countries around the world, and increasingly, our humanitarian projects in the developing world involve multiple funding partners, with Salvation Army partners in various jurisdictions raising funds to support a specific project and collaborating with local Salvation Army personnel to implement it. The acceptance of a global financial reporting model for all NFPs would be a helpful step forward in ensuring a consistent approach to accountability to the Army's donors.

We agree with the objectives for the project. We question whether a five-year completion is too ambitious, although it is probably a reasonable starting point.