

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:

Eric Boa, on behalf of the Global Fund to fight HIV/AIDS, Tuberculosis & Malaria

Email address:

Eric.boa@theglobalfund.org

Description of your role if responding as an individual:

Not Applicable

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

The Global Fund is a partnership designed to accelerate the end of AIDS, tuberculosis and malaria as epidemics. As an international organization, the Global Fund mobilizes and invests more than US\$4 billion a year to support programs run by local experts in more than 100 countries. In partnership with governments, civil society, technical agencies, the private sector and people affected by the diseases, we are challenging barriers and embracing innovation.

Jurisdiction(s) to which the feedback relates:

All

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

(iii) Modified cash

Modified cash has been chosen as there is no option seen for modified accruals accounting basis. Accounting basis varies widely amongst grant implementers in various countries where the Global Fund operates. For financial reporting (annual audited financial statements, periodic progress update reporting) to the Global Fund by these implementers, modified accrual basis of accounting supports this at a minimum, as a requirement.

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

(iv) National GAAP

The Global Fund uses IFRS, however, the grant implementers use different financial reporting standards, based mainly on the requirements of their respective jurisdictions, including:
a) IPSAS;

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

- | |
|---------------------------------------|
| b) National GAAP; and
c) IFRS etc. |
|---------------------------------------|

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

3. Health - Organizations that engage in health related activities, providing health care, both general and specialized services, administration of health care services, and health support services.

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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)

US\$ 10 – 14 billion for three year allocation period

Please provide any further information on revenue in this box

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 would propose to add the below characteristics to the broad definition of NPOs

- duly registered with relevant/ local authorities
- receive benefits (financial & other privileges) from regulators (ex VAT exemptions)
- replace "grant income" on the 3rd bullet by " funding from donors" or " Aid from donors".
- The first bullet should include "goods" in addition to services. Goods defined as bed nets, diagnostic tests for example. While the broad characteristics proposed are sound, it is suggested to modify the first bullet by including a reference to goods (e.g. medicines, nets, diagnostics).
- In addition to the above, clarifications must be provided in the instance of entities that receive significant voluntary funding but somehow use it to make profit. Should those entities qualify under the NPO definition?

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?

We agree that NPOs are accountable to service users, resource providers and regulators as well as have societal accountability.

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?

Yes, we agree with above statement. We would however encourage the consultation paper to further expand on the term "economy, efficiency and effectiveness compliance" as this is a key element interesting many external stakeholders. For instance, some donors will need information on the Value for Money of the investments made. In the public sector, it has to be considered as the utility derived from every purchase or every sum of money spent. Value for money is based not only on the minimum purchase price (economy) but also on the maximum efficiency and effectiveness of the purchase.

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?

Yes, we agree with the issues identified above.
It's worth noting that in many cases financial reporting requested by donors aim to collect data on the program implementation side as well. The need for ad-hoc reporting is intensified by the accountability each organization has with the public and its governing Board's constituencies.

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?

No further challenges besides the two that have been identified on this paper (1- access to technical accounting capacity + software if transactions are complex; 2-users need to understand the information being provided).

The Accrual basis of accounting would present potential implementation challenges to the small-sized NPOs. Even though the main source of the accounting framework will be the IFRS for SMEs the application of the accrual basis of accounting will require many NPOs to significantly step up their financial capacity. Hence, significant capacity building will be required for successful adoption of accruals basis of accounting.

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

How to determine the non-financial information that needs to be included in the reporting? Currently the consultation paper is referring to non-financial areas such as entity's nature, objectives, strategy, risks, and the impact of the entity's projects, programmes and wider activities. As every jurisdiction is different and might or might not require non-financial information, how can the IFR4NPO ensure non-financial information is standardized and accessible/reportable by all NPOs regardless of capacity (no NPOs left behind)?

The inclusion of non-financial information in the reporting would be a positive development to allow readers to link the financial information to the programmatic achievements, risks and overall performance of an NPO. Further, such non-financial information needs to be evaluated/assessed on the same ground for comparability and consistency.

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?

Yes, we agree with above statement as the existing international frameworks have been developed through transparent and participatory due process accepted globally. However, we would recommend any lessons learned from the existing International financial reporting frameworks be leveraged in the IFR4NPO if possible.
Considering the international profile of this project, the use of international financial reporting framework is the best reference to develop guidance for NPOs.

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?

We partially agree with above statement; On the 3 criteria that have been introduced to assess the suitability of the existing international frameworks (1-To what extent does the framework provide guidance on the key NPO specific issues 2- Will preparers, auditors and users be familiar with and easily be able to use the framework? 3- How feasible will the development and maintenance of guidance under the framework be) criteria 2 should not be a basis to evaluate the suitability of the international framework as both preparers and auditors must be familiar and compliant with any recommended reporting framework.

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 high-level assessment of the existing international frameworks. IFRS and IPSAS are complex and require frequent updates while the IFRS for SMEs is simplified and with updates every 5 years.
In addition to above, it would be beneficial for the IFR4NPO consultation paper to evaluate the need for comparability with the information coming from the Government sector (i.e. Ministries, National Programs, Government entities).

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?

The consultation paper recommends the development of the guidance to focus initially on those NPOs that have complex operations(5.23); however it would be ideal for all NPOs to be targeted. This will ensure the guidance to be comprehensive and efficient in the making. In addition, fragmenting the guidance by NPO (simple, complex.) will weaken the momentum of the IFR4NPO project; We believe the momentum should be kept high in ensuring all NPOs are targeted in this consultation paper.

While the choice of the IFRS for SMEs as the main source of information presents advantages in terms of effectiveness and ease of use, it's worth noting that those standards are mainly designed for the use of the private profit-oriented sector. Conversely, the IPSAS are designed for use within the public sector. As such, it will be crucial for the IFR4NPOs to critically assess the Financial reporting pronouncements first with the IPSAS and then with the IFRS.

It is important to highlight that the guidance from the IFR4NPO once finalized should be accessible to all NPOs (free of charge as well as with ease of access).