

IFRNPO Guidance

January 2021

Response Document

PART 2: NPO-SPECIFIC 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 2** 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 2** are requested by **24 September 2021**

Information requested from all respondents

Name¹:

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Description of your role if responding as an individual:

Individual

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

N/A

Jurisdiction(s) to which the feedback relates:

Australia

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

(i) IFRS

Accounting standards based on IFRSs as issued by the IASB, with few NFP specific modifications (mainly to deal with holding assets for services and not discounted cash flows), and few NFP specific additional standards (e.g. for contributions and grants).

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

Dropdown menu. Please select description that is closest.

Please provide any further information on organisation and activities in this box.

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 annual revenue of the NPO in US\$ (optional)

Please provide in numerical format the approximate annual total revenue of the NPO in US\$

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

Specific Matters for Comment (SMC)

Introduction

Part 2 of this Consultation Paper considers a number of NPO-specific financial reporting issues. It raises questions that are relevant to the project objectives, such as balancing the needs of preparers and users and improving the transparency of NPO financial reports. However, the main focus is to assist in delivering the third project objective: Objective 3: To address specific NPO issues, which will promote the comparability of NPO financial reports.

This part of the Consultation Paper sets out how the list of NPO-specific financial reporting issues for potential consideration was originally identified, and provides a description of the nature of each issue. The criteria used for selecting the issues to be included in the Consultation Paper, and therefore probably in the initial Guidance, are also included.

In-depth analysis is provided for each of the NPO-specific financial reporting issues currently proposed for the initial Guidance. Alternative approaches that could be pursued to address each issue are included to generate feedback.

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.

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Overview – Selection of NPO-specific issues

This part of the Consultation Paper sets out how NPO-specific financial reporting issues have been identified and provides a description of the nature of each issue. Criteria for selecting issues to be included in the initial Guidance are also included.

SMC 0(a) Is the list of NPO-specific financial reporting issues complete? If not, please provide information about the further issues that you believe are specific to NPOs, or issues that should be removed, together with supporting reasoning for the change(s) you propose.

One of the issues the IASB has faced, is the statement of compliance with their standards. The IASB requires full compliance in order to state compliance with IFRSs as issued by the IASB. Otherwise, where there are modifications, it is (for example) IFRSs as endorsed by the European Union.

I understand that if a country allowed IFRS for SMEs to be used by (say, small) listed companies, or entities that are not publicly accountable, such companies would not be able to claim compliance with IFRS for SMEs.

A similar issue will arise for the IFR4NPO standard – will entities be permitted to pick and choose components of the standard and still state compliance with the standard?

Compatibility

If the final IFR4NPO standard is close to IFRS for SMEs, then a comparison or list of differences would be useful.

SMC 0(b) Do you agree with the criteria used to evaluate the list of issues? If not, what changes would you make and why?

No comment

SMC 0(c) Do you agree with the topics prioritised for the Consultation Paper? If not, outline which topics should be added or removed and why.

I think the following issues should be given higher priority (part of Phase 2):

Accounting for investments

Related party transactions

Issue 1 – Reporting entity and control (including branches)

Reporting entities need to produce financial statements and so it is important to know what constitutes a reporting entity in the sometimes complex arrangements that surround NPOs. Understanding the accounting implications of these arrangements is key to providing complete and transparent financial information.

Some of the specific questions that this topic is seeking to address are:

- How is control defined (as NPOs may not be exposed to investee returns in a conventional sense)?
- How is a branch defined? Should all branches be accounted for as part of an NPO? What is the status of the financial statements of a branch that is not a separate legal entity?

SMC 1(a) Do you agree with the description of issue 1 – Reporting entity and control (including branches) – in the Consultation Paper? If not, why not?

Yes, I agree.

The standard should be flexible enough that part of a legal entity, such as a branch, or a fund (however defined), could be a reporting entity.

As auditors, we are sometimes required to report on specific activities of a an entity. This could be a fundraising activity. In my personal experience for an NPO I was on the management committee, each branch was separately managed with its own fundraising, and spending, but technically part of the national operation. It was much cheaper getting each local branch audited locally, rather than trying to coordinate a firm to get all the audits completed. It was also more useful to focus on the national operations (where the membership fees were raised, and excluding branch fundraising and operations).

SMC 1(b) Do you agree that the list of alternative treatments that should be considered for issue 1 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

No, I do not agree.

I believe that the control approach under IFRS 10 that Australia has been using is superior to the ownership based approach. However, I believe that a simplified approach is needed for IFR4NPO. If IFRS for SMEs is updated for IFRS 10, then that is likely to provide a very good start.

SMC 1(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 1? If you do not agree, please set out the changes you propose, and why these should be made.

I do not believe the focus on Alternative 2 on ownership is the best approach for NPOs. This is because many NPO governing arrangements are based on agreements and constitutions (e.g. who can appoint the directors) and are not always linked to votes by members.

SMC 1(d) Please identify the alternative treatment that you favour for issue 1, and the reasons for your view.

Refer SMC 1(b) and using a simplified IFRS for SMEs style approach for IFRS 10.

Issue 2 – NPOs acting on behalf of other entities

The complex arrangements that surround NPOs may mean that in some instances an NPO is acting on behalf of another entity. It can be difficult to determine whether an NPO is merely acting in an administrative role and what its accountability arrangements are.

Some of the specific questions that this topic is seeking to address are:

- When is an NPO acting as an agent and when is it acting as principal?
- Is any disclosure required of the gross amounts relating to agency activity or assets in custody (including cost pass through and assets held on behalf of another entity/person)?

SMC 2(a) Do you agree with the description of issue 2 – NPOs acting on behalf of other entities? – in the Consultation Paper? If not, why not?

While I agree that principal vs agent is a very important issue, I almost always find that the NPO has some decision making that it is responsible for, for example employment of staff. Consequently, the principal vs agent issue is related to the grant funding (that can be dealt with under the revenue topic on an agreement by agreement basis), not the entire operations of the NPO.

SMC 2(b) Do you agree that the list of alternative treatments that should be considered for issue 2 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

I believe that principal vs agent needs to be applied agreement by agreement, and not to the entire entity.

SMC 2(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 2? If you do not agree, please set out the changes you propose, and why these should be made.

No, I do not agree

SMC 2(d) Please identify the alternative treatment that you favour for issue 2, and the reasons for your view.

I believe that a simplified approach of principal vs agent in IFRS for SMEs (if it is updated to be in line with IFRS 15) would provide the best approach – possibly with any relevant public sector modifications the IPSASB makes to its standard based on IFRS 15.

One principal vs agent issue I have come across is in relation to grant / loan / funding distributions. A department provides some funding for a series of grants or loans, and the administration of those grants or loans is undertaken by another (administration) entity. In practice, there is usually some sort of decision making that the administration entity undertakes, such that a better representation of results is that the administration entity recognises the funds in and funds out. It is very unusual (though sometimes happens) that for the loans, there is pass through arrangement, such that the original funder is responsible for the loans and their collection (e.g. like a mortgage loan broker and the main funding bank makes the ultimate decision).

SMC 2(e) Additional disclosures are proposed under all alternatives for issue 2. Outline any challenges you would anticipate with the proposed disclosures? Are there additional disclosure that might be more relevant?

Refer examples in SMC 2(d)

Issue 3 – Non-exchange revenue

NPOs receive non-exchange revenue from a variety of different resources. NPOs may rely on grants, cash donations, donations of individual items (gifts in-kind), donations of services or volunteer time (services in-kind) and bequests and endowments in order to meet their objectives.

Non-exchange revenue transactions raise specific issues. These issues relate to the recognition, measurement and disclosure of non-exchange revenue.

SMC 3(a) Do you agree with the description of issue 3 – Non-exchange revenue? – in the Consultation Paper? If not, why not?

No, I do not agree. I do not think there was sufficient focus on capital grants (i.e. grants for capital works like buildings etc.) and obligations to use those capital works for the NPO's operations.

Also, the developments for this issue should also take into account that some arrangements are paid in arrears – they are not all paid in advance. This therefore means working out when an NPO can recognise revenue before it receives the cash. It is not all about how much revenue / funding paid in advance is deferred.

SMC 3(b) Do you agree that the list of alternative treatments that should be considered for issue 3 is exhaustive? If not, please describe your additional proposed practical alternatives, and explain why they should be considered.

No, I do not agree.

I believe that the proposals by the IPSASB, particularly in ED71 for funding that are present obligations, though not performance obligations under ED70 / IFRS 15, provide a suitable solution for this issue.

I also believe that there should be some flexibility for services and gifts of goods. In Australia, mandatory recognition (is limited for public sector entities) to if the entity would have purchased the services if they had not been donated, and the amount can be measured reliably.

Also, for inventories, entities in Australia have the choice to recognise donated assets based on the amount for each item, as well as on a portfolio basis. Therefore, some entities that regularly receive donated goods, and have the systems to make estimates on value, can recognise the grossed-up revenue and expenses / COGS. However, for those entities where the benefits do not exceed the costs (like local sporting clubs for their raffles), they do not need to do so.

SMC 3(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 3? If you do not agree, please set out the changes you propose, and why these should be made.

Some funding agreements are very poorly worded. For example, some capital grants have a return provision for the entire grant funding if the building is not used for the intended purpose. In practice, no one really pays much attention to the wording, as everyone “knows”

or trusts that the NPO will use the building for its entire life. However, for accounting purposes, if a liability is recognised for the unexpired portion of the obligation to use the building for its operations – is the unexpired portion the entire amount (so no amount of revenue is recognised until the end of the agreement), or is it time expired – even if the agreement does not reduce the refund obligation on a time basis?

SMC 3(d) Please identify the alternative treatment that you favour for issue 3, and the reasons for your view.

Refer SMC 3(b) for my comments on possibly using what comes out of the IPSASBs Revenue project, on ED70 and in particular ED71.

SMC 3(e) If you favour an alternative other than alternative 4 for issue 3, do you consider that the exceptions to the recognition and measurement of gifts in-kind and services in-kind should be available under your preferred option?

Refer comments for SMC 3(a) and 3(b) for suggestions on using IPSASB ED71 for non-exchange revenue, and other suggestions for donated services and donated goods.

SMC 3(f) Are there any practical considerations, for example impacts on tax or audit thresholds, or questions that arise in implementing your preferred option for issue 3?

Yes, it is common for reporting thresholds to be based on revenue recognised for accounting.

Issue 4 – Grant expenses

Many NPOs make grants to other organisations to further their own objectives. This topic is primarily concerned with what expense should be recognised and when, as well as related disclosures.

SMC 4(a) Do you agree with the description of issue 4 – Grant expenses? – in the Consultation Paper? If not, why not?

Yes, I agree.

In Queensland (Australia) for government purposes we distinguish between a procurement and a grant. When there is a procurement (benefits back to the entity) like electricity, IT services, then accrual accounting and prepayments are recognised. For grants, amounts are recognised only when there is an obligation – no prepayments for unexpended cash by the funding provider / grant recipient (as proposed in IPSASB ED72) are recognised.

It is also becoming more difficult to distinguish between procurements and grants with social benefit bonds and impact investing. For some social benefit bond programs, some upfront payments are made by the government, but a significant amount is raised by the private sector NPO (using bonds), and those bonds are repaid (with “interest”) based on measured performance and delivery – which is often delayed while the program being funded (e.g. jail recidivism) is undertaken, and outcomes measured.

SMC 4(b) Do you agree that the list of alternative treatments that should be considered for issue 4 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Neither addresses in enough detail when an obligation is incurred.

In particular, it is difficult to determine when an obligation is incurred, when payments are in arrears to the recipient. This may be further complicated if agreements include ‘termination for convenience clauses’ which allow the funder to terminate the agreement for convenience (i.e. there does not have to be a reason, and there does not have to be a breach of the agreement).

SMC 4(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 4? If you do not agree, please set out the changes you propose, and why these should be made.

No, refer my comment for SMC 4(b)

SMC 4(d) Please identify the alternative treatment that you favour for issue 4, and the reasons for your view.

Refer my comments for SMC 4(a) and 4(b) for the need to determine when an obligation arises.

I disagreed with the proposals in ED72 to apply mirror accounting and recognise prepayments for unexpended funds by grant recipients. I do not believe that the funder (making the grant) controls benefits or resources representing unspent monies held by the recipient. Once the cash has gone from the grant provider for a grant (compared to a procurement), the cash has gone.

Issue 5 – Measurement of non-financial assets held for social benefit

Tangible and intangible assets that are held for use in delivering the NPO's objectives and not for a financial return is a specific issue for NPOs, particularly where there is a need to impair them.

This topic is seeking to address matters related to:

- How assets are measured initially and subsequently
- Impairment, including when an impairment is recognised, how it is measured and what disclosures should be made.

SMC 5(a) Do you agree with the description of issue 5 – Measurement of non-financial assets held for social benefit? – in the Consultation Paper? If not, why not?

Yes, I agree

SMC 5(b) Do you agree that the list of alternative treatments that should be considered for issue 5 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

No, I do not agree.

Australia has some provisions relating to accounting for assets that are not held primarily for their ability to generate net cash inflows (i.e. those often held by NPOs).

The problem I see with the revaluation model proposed, is that once you have revalued, you are on the 'treadmill' and have to keep on the treadmill and revaluing the assets each year.

Not-for-profits often just want to revalue their land, maybe their buildings, every once in a while to give a more representative carrying value, but not to have to incur the costs of valuers each year.

In Australia, where we apply IFRS 13, there are difficulties in determining the 'market participant' for not-for-profit (and public sector) specialised assets where there is no actual market participant to purchase those assets.

There are also additional costs involved in applying highest and best use, when there is a lack of hypothetical market participants.

The later issues do not apply for simply office buildings.

SMC 5(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 5? If you do not agree, please set out the changes you propose, and why these should be made.

No, refer my comments in SMC 5(b) on the costs of the revaluation treadmill, and applying market participant.

SMC 5(d) Please identify the alternative treatment that you favour for issue 5, and the reasons for your view.

Refer to my comments in SMC 5(b) on the revaluation treadmill, and applying the highest and best use, and hypothetical market participant.

I was hoping the IPSASB project on measurement may provide a suitable approach. However, as at Sep 2021, the current operating value approach proposed by the IPSASB is not adequately explained.

SMC 5(e) Do you agree that land and buildings (or sub classifications thereof) used to provide services should be measured using the revaluation model and specifically a measurement which reflects the 'value in use' or the operational capacity to an NPO? Could it provide useful information to users?

Yes, I believe that an approach different to IFRS would be suitable. However, as shown by the IPSASB proposals, there is a lack of detail as to how to apply that approach. I do not know how a value in use approach would work – unless it is essentially the (replacement) cost approach under IFRS 13 without the requirements for hypothetical market participant or highest and best use.

Issue 6 – Inventory held for use or distribution

Inventory held for use or distribution to service users has also been identified as a specific issue for NPOs, particularly where the inventory has been donated rather than purchased.

Some of the specific questions that this topic is seeking to address are:

- the initial and subsequent measurement of low value donated goods
- the measurement of perishable inventories and what disclosures should be made about these
- impairment, including when an impairment is recognised, how it is measured and what disclosures should be made.

SMC 6(a) Do you agree with the description of issue 6 – Inventory held for use or distribution? – in the Consultation Paper? If not, why not?

Yes, I agree

SMC 6(b) Do you agree that the list of alternative treatments that should be considered for issue 6 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

No.

Donated assets

As I included in SMC 3(b), I believe that there should be flexibility for donated inventories.

For inventories, entities in Australia have the choice to recognise donated assets based on the amount for each item, as well as on a portfolio basis. Therefore, some entities that regularly receive donated goods, and have the systems to make estimates on value, can recognise the grossed-up revenue and expenses / COGS. However, for those entities where the benefits do not exceed the costs (like local sporting clubs for their raffles), they do not need to do so.

The benefit of having a specific exemption within the standard is that there is no need to make materiality assessments.

Impairment

As I noted in SMC 5(b), Australia has some provisions relating to accounting for assets that are not held primarily for their ability to generate net cash inflows (i.e. those often held by NPOs).

SMC 6(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 6? If you do not agree, please set out the changes you propose, and why these should be made.

Refer to my comments for SMC 6(b) for the advantages for the suggestions

SMC 6(d) Please identify the alternative treatment that you favour for issue 6, and the reasons for your view.

Refer to my comments for SMC 6(b) for suggestions

Issue 7– Presentation of financial statements (including fund accounting)

The format and content of financial statements including revenue and expenses is fundamental to how the information is presented to stakeholders. This presentation is particularly important when revenue is restricted or can only be used for particular purposes.

Some of the specific questions that this topic is seeking to address are:

- How should financial statements be presented to help the user's understanding of an NPO's activities? Should there be disclosure of material categories of income and expenses and/or transactions?
- How should unrestricted and restricted funds that can be used for specific NPO purposes be presented in the main financial statements and notes (including reserves)? How does this align with donor reporting requirements? What is the role of fund accounting?

SMC 7(a) Do you agree with the description of issue 7 – Presentation of financial statements? – in the Consultation Paper? If not, why not?

Yes, I agree

SMC 7(b) Do you agree that the list of alternative treatments that should be considered for issue 7 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Australia does not have mandated fund accounting or mandated disclosure on the income statement for restricted vs unrestricted funds.

Australia has some disclosures around restricted cash held.

SMC 7(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 7? If you do not agree, please set out the changes you propose, and why these should be made.

I do not see any easy way to define fund for global usage. What is a fund? In Australia, some NPOs promise along the lines that "100% of the funds raised will be spent on xxx campaign". So, possibly a campaign may be a fund. The problem with approaches like this is that the 100% spending promises can result in no funds being retained for running the NPO – so where does the NPO get its funds for running costs?

I can also see problems if a fund was interpreted as a grant, and an NPO having hundreds of funds.

SMC 7(d) Please identify the alternative treatment that you favour for issue 7, and the reasons for your view. In your response please consider the presentation of unrestricted reserves allocated for internal purposes.

I suggest that it be optional on providing the suggested disclosures of funds, restricted vs unrestricted. I also suggest including some guidance – similar to the private sector on segments. In the private sector there is guidance on selecting segments. There are also requirements on disclosures on how segment results are determined, and that they be reconciled to the statutory result.

SMC 7(e) The term 'statement of financial performance' is used in the Consultation Paper to describe the statement that contains an NPO's revenues and expenses. Do you agree with the use of this term? If not, describe your preferred term and explain your reasoning.

I think there is sufficient flexibility in having the term 'statement of financial performance', and allowing people to use the term 'income statement'.

The major problem is dealing with OCI (other comprehensive income), than non-accountants do not have a clue about what you are referring to, or are likely to understand.

Issue 8 – Classification of expenses – function or nature?

NPOs can present their expenses by nature or by function, with at least one jurisdiction having a presentation allowing a hybrid of the two.

Some of the specific questions that this topic is seeking to address are:

- Should there be a standardised format and if so, what should the primary headings be?
- Should the primary analysis of expenses be based on function or nature?

SMC 8(a) Do you agree with the description of issue 8 – Classification of expenses? – in the Consultation Paper? If not, why not?

Yes, I agree

SMC 8(b) Do you agree that the list of alternative approaches that should be considered for issue 8 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes, I agree

SMC 8(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 8? If you do not agree, please set out the changes you propose, and why these should be made.

I have no idea how one jurisdiction managed to combine functional and nature. Major expenses like employee benefits and depreciation can only go into one bucket.

SMC 8(d) Please identify the alternative approach that you favour for issue 8, and the reasons for your view. When considering your preferred approach please comment on which alternative:

(i) provides the best information about the key components of expenses or drivers of performance/activities?

(ii) most closely matches how management reports internally and the way the operation is run (to assist with the cost/benefit assessment)

(iii) whether the alternatives link to any key ratios that might be given in the narrative reporting (and therefore should be something that can be disclosed and reconciled to)

(iv) whether the alternatives permit accountability.

I agree with Approach 1. Allow the entity to choose nature or function, but if they choose function, then they need to include a nature analysis – so that there is some comparability from NPO to NPO.

I do not agree with suggestions I have heard that if an NPO presents a nature analysis, they have to prepare a function analysis. If the NPO does not think that a function analysis is the most relevant, then I see no point in making a (what I see as entity specific) function analysis.

SMC 8(e) Do you think that the alternatives for issue 8 provide the right balance between information presented on the face of the performance statement or in the notes?

Refer to my comments in SMC 8(d)

SMC 8(f) Would the allocation of expenses to functions outlined in issue 8 be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions?

I do not see an externally imposed list of functions for global use to be useful.

I think an analysis by nature would be the best to compare one NPO to another.

SMC 8(g) Are there any practical questions that arise in implementing your preferred option for issue 8?

Refer above comments that refer to combining nature and function, and determining a standard functional analysis split.

Issue 9 – Fundraising costs

Raising funds is critical to the existence of many NPOs. Fundraising activities can take many forms and there is a question about where to report the associated costs.

Some of the specific questions that this topic is seeking to address are:

- How should the costs of fundraising be defined (for example, whether to include business development spend and/or overheads)?
- How should the costs of fundraising be recognised and/or presented (i.e. on a gross basis or netted against income)?

SMC 9(a) Do you agree with the description of issue 9 – Fundraising costs? – in the Consultation Paper? If not, why not?

Yes, I agree

I would also add that there are significant risks and problems in focusing on administration costs. The Australian Charities regulator, the ACNC, was some guidance on the issue, emphasising that it costs money to run a charity:

<https://www.acnc.gov.au/for-public/understanding-charities/charities-and-administration-costs>

SMC 9(b) Do you agree that the list of alternative approaches that should be considered for issue 9 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes, I agree

SMC 9(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting approach for issue 9? If you do not agree, please set out the changes you propose, and why these should be made.

Yes, I agree

SMC 9(d) Please identify the alternative approach that you favour for issue 9, and the reasons for your view.

I prefer Alternative 1. My preference is not to have a separate mandatory fundraising cost disclosure. This includes risks and problems identified in the reference above to the ACNC web page SMC 9(a).

SMC 9(e) Do you agree that all fundraising costs should be presented gross? If not, please provide examples of where this might not apply and the reasons for your view.

There will likely be differences between entities that do the work themselves, or use agents, eg. 'chuggers' – 'charity muggers', and the charity receiving donations after commission has been deducted by the 'chugger' service provider.

This also goes to the complexity of the issue, and potentially misleading results by using one indicator of performance.

Issue 10 – Narrative reporting

Non-financial information, which includes management commentary and other forms of narrative reporting, is relevant to NPOs, in demonstrating accountability and stewardship to stakeholders and civil society. For many NPOs, the financial statements may not capture many of the most important aspects of performance.

Some of the specific questions that this topic is seeking to address are:

- What should the narrative/non-financial reporting requirements be for NPOs?
- Should ratios be required for narrative reporting? If they are included, how should costs be classified between support costs and those attributable to operational delivery?

SMC 10(a) Do you agree with the description of issue 10 –Narrative reporting? – in the Consultation Paper? If not, why not?

Yes, I agree.

SMC 10(b) Do you agree that the list of alternative treatments that should be considered for issue 10 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

I believe that this is an evolving area, e.g. the work that ICAS is doing on Impact Reporting

SMC 10(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 10? If you do not agree, please set out the changes you propose, and why these should be made.

Yes, I agree

SMC 10(d) Please identify the alternative treatment that you favour for issue 10, and the reasons for your view.

I prefer Alternative 1 – exclude narrative reporting from this phase of the work – though summarise possible approaches, and their benefits / costs.

Having NPOs disclose what it has achieved appeals to me. However, measuring this achievement in actual outcomes is difficult. A lot of NPOs appear to be happy saying how much money they have spent on the particular area. Donors appear to be happy with that approach – they seem to want good news stories – and appear not to want stories about their favourite charity failing to achieve desired outcomes.

SMC 10(e) Should narrative reporting guidance be set at the level of a framework and principles, rather than any more specific reporting requirements or recommendations? If you disagree, what additional guidance on what specific reporting requirements or recommendations would be beneficial?

No comment – my preference is to defer mandated requirements