



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

CONSULTATION PAPER – *Issues for General Purpose Financial Reporting by Non-profit Organisations*

CONTENTS

EXECUTIVE SUMMARY

[PREFACE](#)[INTRODUCTION](#)

[NPO Financial Reporting](#) – Current Position

Strengthening NPO [sector](#) governance and financial management

[IFR4NPO](#) Guidance [Project](#) Objectives

[The](#) Consultation Paper [Aims](#)

Navigating the Consultation Paper

[Response](#) [Responding](#) to the Consultation

PART 1: NPO Financial Reporting – Overall Guidance Approach

Chapter 1: What are non-profit organisations?

Chapter 2: Who are NPO stakeholders and what are their needs?

Chapter 3: What are the essential aspects of NPO Financial Reporting [Guidance](#)?

Chapter 4: How far can [existing](#) international financial reporting regimes assist NPOs?

Chapter 5: [What is the way forward?](#) [Proposed way forward](#)

Formatted: Font: (Default) Open Sans



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

PART 2: NPO Financial Reporting – Sector-specific Issues

Overview of Part 2

Section 1 - Reporting entity

Issue 1 - Reporting entity and control [\(including branches\)](#)

Issue 2 - NPOs that act on behalf of other entities

Section 2 – Accounting for Incoming resources

Issue 3- [Non-exchange rRevenue](#) (including monetary donations and grants (Cash [transferscontributions](#)), donations of assets and items for resale (Gifts in kind) and volunteer time and donated services (Services in kind)

Section 3 – Accounting for Outgoing resources

Issue 4 - Grant expenses

Section 4 – Accounting for Financial and non-financial assets

Issue 5 - Measurement of assets held for their service benefit

Issue 6 - Inventory held for use or distribution

Section 5 – Presentations, scope and content of financial reports

Issue 7 - Financial statement presentation

Issue 8 - Classification of expenses

Issue 9 - Fundraising costs

Issue 10 – [Narrative Non-financial Reportingreporting](#)

SUPPLEMENTARY INFORMATION

[IFR4NPO](#) Additional Project Information

International and national financial reporting standards and guidance for NPOs

Analysis of [sector-NPO](#) specific issues against international standards

GLOSSARY OF TERMS USED IN THE CONSULTATION PAPER



PREFACEINTRODUCTION

1. NPO Financial Reporting – Current Position

1.1 ~~There Currently there~~ are no common ~~international~~ accounting standards for ~~Nonnon-Profit-profit Organisations-organisations~~ (NPOs) that are available to be used in ~~any-every~~ country ~~across-around~~ the world. ~~Few-A few~~ countries have ~~special-accounting~~ standards or guidance ~~developed at a national level~~ that address the unique characteristics of NPOs and the types of transactions they undertake. ~~Where-Internationally, when NPO~~ financial reports are prepared on an accrual basis, they are often prepared using accounting standards developed for the private ~~sector-or~~ public sectors ~~s-or a mixture of bot~~. Reporting on a cash basis, or a modified ~~accrual-cash~~ basis is also common across ~~the sector-NPOs~~.

1.2 In ~~most-many~~ countries, NPOs have no guidance or framework to support the preparation of financial statements that are ~~so~~-crucial for accountability, ~~transparency~~ and decision making. ~~Donors-Funding organisations~~ have filled this void ~~by developing their own-with a variety of~~, reporting requirements ~~for NPOs~~, and while each has their merits, ~~together they-the variety of different~~ ~~requirements~~ can create a heavy burden on the very organisations they want to support.

~~1.3~~ ~~1.3~~ International guidance would increase the consistency, transparency, credibility and reliability of NPO financial statements. It would support the development of trust in NPO financial statements, and has the potential to reduce compliance costs, releasing funds for front-line activities.

~~1.4~~ Private and public sector entities and their stakeholders have benefited greatly from the development and use of international standards since the 1970s. A 2014¹ international survey, which had more than 600 responses from 179 countries found that 72% of respondents agreed or strongly agreed an ~~international~~ accounting standard or guidance specifically for NPOs would be useful.

~~4.5~~ ~~1.4~~ The COVID-19 pandemic has ~~reinforced the need for change~~. It has further exposed how the lack of common accounting standards is a barrier to mobilising funding from domestic and international sources for the NPOs that have been in the front lines of the response. As the importance and scale of the role played

Formatted: Indent: Left: 0.75 cm, Hanging: 1.25 cm,
No bullets or numbering

Formatted: Font: (Default) Open Sans Light

Formatted: Font: (Default) Open Sans Light

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

¹ International financial reporting for the not-for-profit sector (2014) – A study commissioned by Consultative Committee of Accountancy Bodies in the UK and Ireland



by NPOs in addressing this pandemic and future crises grows, there is increasing urgency to develop the common [international](#) standards needed.

1.5 [The development of NPO guidance would improve the consistency, transparency, comparability, credibility and reliability of NPO financial statements. It would support an increase in trust and confidence in NPO financial statements, and has the potential to reduce compliance costs, which will allow for the release of funds for front-line activities.](#)

1.6 ~~That is why this project, being funded by donations and grants and delivered by the Chartered Institute of Public Finance and Accountancy (CIPFA) and Humentum, both themselves NPOs has been put in place³.~~ The International Financial Reporting for Non-Profit Organisations (IFR4NPO) project is intended to respond to the issues summarised above by developing internationally applicable financial reporting Guidance for non-profit organisations ('the Guidance'). [The project, which is being funded by donations and grants and is being delivered by the Chartered Institute of Public Finance and Accountancy \(CIPFA\) and Humentum, both themselves NPOs has been put in place³.](#)

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

Formatted: Font:

Formatted: Font: (Default) Open Sans Light

Formatted: Indent: Left: 1.27 cm, Line spacing: Multiple 1.08 li, No bullets or numbering

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

2. Strengthening NPO sector governance and financial management

2.12.4 The [attractiveness and credibility of the NPOs sector to stakeholders and particularly those who contribute funds](#) is dependent on [creating and maintaining trust through making the best possible use of finite resources and making a positive impact for those intended to be helped](#). This is critical to retaining support and demands strong governance and financial management, which is not uniformly present across [the sector NPOs](#).

2.22.5 There are other projects that aim to strengthen [aspects of NPO sector governance and financial management](#). These include the 'Good Financial Grant Practice' Standard (GFGP)⁴, which aims to standardise, simplify and strengthen the financial governance of grant funding, and Money Where it Counts (MWIC)⁵, which aims to standardise information to large donors rather than the multiple

Formatted: Outline numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Indent at: 0.63 cm

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

³ For further information about the project and the collaboration partners, see Supplementary Information – Project Background and Information.

³ For further information about the project and the collaboration partners, see Supplementary Information – Project Background and Information.

⁴ See www.globalgrantcommunity.com

⁵ The full MWIC protocol can be accessed at: <https://files.humentum.org/fl/T66AWs9Yf5#folder-link/>



formats that currently exist. These initiatives aim to benefit both the providers of grants and NPOs receiving them.

2.32.6 While these and other similar initiatives are important, they ~~cannot have not been established~~ individually ~~to~~ address all the problems identified with NPO governance and financial management. The focus of the IFR4NPO Project ~~team will be~~ to ensure that the ~~financial reporting project~~ outputs ~~from this project~~ build on and complement these initiatives, positively contributing to outcomes that aim to strengthen NPO governance and financial management.

Formatted: Indent: Left: 0.63 cm, Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

2.42.7 The ~~Guidance can~~ outputs ~~from this project aim to~~ play a key role in strengthening the accountability of NPOs ~~in every country~~ across the world. It is intended to ~~bring international solutions to address the most important and significant of~~ the broad range of financial reporting issues facing NPOs ~~around the world~~. A single set of guidance will ~~reduce confusion and~~ set a clear, ~~professional, accounting~~ benchmark ~~of for~~ what good financial reporting looks like ~~in the sector~~.

Formatted: Indent: Left: 0.63 cm, Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

2.52.8 The Guidance also aims to give NPOs the means to demonstrate their financial capacity, ~~reduce the costs of managing grants~~, provide ~~decision~~ useful information ~~for decision makers, and~~ support fundraising. ~~The standardisation possible through the Guidance could and~~ also reduce the costs for NPOs in ~~managing their finances~~ the management of grants and other donations. Similarly, the project aims to reduce ~~transaction~~ costs for funders ~~eg due diligence~~ and enable funders to ~~be~~ better ~~able to reliably~~ assess the financial health of potential partners.

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

2.62.9 The environment for the effective regulation of ~~the sector~~ NPOs, both nationally and internationally will be improved by more consistent reporting that provides a basis for comparison between organisations and jurisdictions. It will enhance the credibility of NPO financial reporting and support ~~the development of an increase in~~ trust ~~and confidence across the sector~~. It will provide the starting point for a more coordinated approach that ~~prevents limits~~ differences emerging amongst jurisdictions. These outcomes will together lead to ~~a~~ better managed, ~~credible~~, more efficient and accountable ~~sector with higher levels of trust~~ NPOs.

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

3. IFR4NPO Guidance Project Objectives

Formatted: Outline numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Indent at: 0.63 cm



3.13.4 To strengthen the governance and financial management of NPOs, the Guidance will be designed-developed over a 5-year timeframe to meet the following three objectives over a 5-year time frame:

Objective 1: To improve the quality, transparency and credibility of NPO financial reports.

Objective 2: To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and stakeholdersusers.

Objective 3: To address key-specific NPO sector-specific issues, which will promote by increasing the comparability of NPO financial reports.

3.23.5 Providing-Developing accrual-based guidance will be critical to establishing internationally ly accepted guidance that meets applicability, and to meeting the broader needs of NPO stakeholdersfinancial report users. Accrual accounting is the accepted basis of international accounting standards. The challenges involved are not underestimated, given the current international prevalence of cash-based or modified accrual-cash reporting. Part 1: Chapter 3 explore this in more detail.

3.33.6 The Guidance will assist all NPOs in preparing financial reports that meet the general financial information needs of a broad range of stakeholders. It is not intended to include tailored or special purpose reports to address the specific information needs of donors on-with respect to specific grants. Part 1: Chapter 3 explores this in more detail.

3.43.7 All NPOs are expected to benefit from the Guidance. However, the immediate benefits of the Guidance to different NPOs will vary because of the diversity within the sector, from small membership organisations funded by and delivering services to a limited number of people, to large international relief organisations providing a wide range of services in many countries and in receipt of significant donations and commercial revenue streams. However, the benefits of the Guidance to individual NPOs will vary because of the diversity of organisations within the sector as well as the extent to which there are current national NPO specific requirements and the financial reporting environment. The immediate benefits will be influenced by the differing financial reporting needs across the sector, which will themselves reflect the complexity of NPO business models and operations. (see Part 1: Chapter 5) provides further information.

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm



3.53.8 As with all international financial reporting standards, ~~Adoption~~ adoption of the Guidance in full or in part will be for each jurisdiction to determine, ~~in common with all international financial reporting standards~~. The Guidance will therefore be non-mandatory. It will be developed to maximise the potential for it to be adopted by any jurisdiction.

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

3.63.9 The ~~idea~~ aim is that ~~donors~~ funding organisations will increasingly ~~refer use to~~ the ~~guidance~~ Guidance in their compliance ~~requirements and due diligence processes~~ and request that grantee financial reports are prepared ~~for them~~ on a consistent basis with the Guidance.

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

4. The Consultation Paper Aims

Formatted: Outline numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Indent at: 0.63 cm

4.14.4 The Consultation Paper is the first step in developing internationally applicable financial reporting guidance for NPOs. The Consultation Paper provides the opportunity for those interested in or affected by NPO financial reporting to become acquainted with what the guidance will cover and how it will be developed. It is intended to generate discussion and invite comment so that members of the NPO community can contribute to the development of a solution for the sector. ~~The overriding aim is to engage stakeholders~~ about the need for common financial reporting guidance that can be applied internationally for NPOs. The CP therefore seeks to discuss the issues that are important to those individuals or organisations that have an interest in NPO financial reporting. Stakeholders⁶ include, for example, senior executives in NPOs, grant makers (large donors), regulators, governments (including tax authorities), auditors, NPO finance teams, creditors, academics and members of the public that support or benefit from the work of NPOs. The Consultation Paper is the first step in a 3-step process as outlined in Figure 1.1.

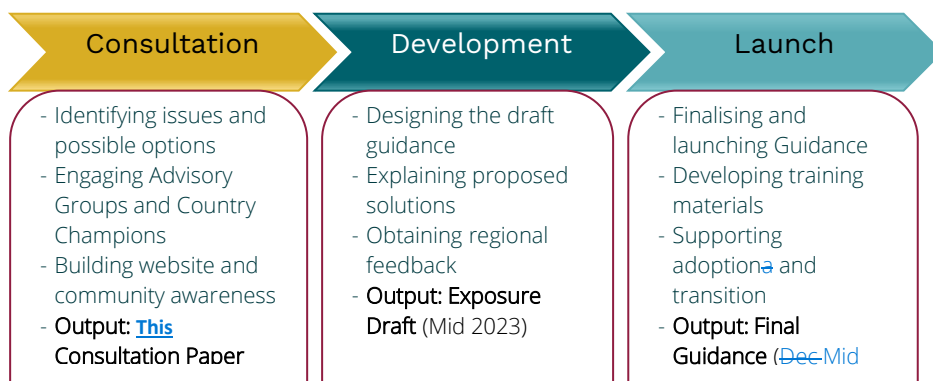
Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

4.2 Feedback received in response to this Consultation Paper is of critical importance to the project. It will influence the development of the Exposure Draft (ED), which will be the first point at which detailed solutions are developed, and the ED is currently planned to be published in mid 2023, with the final Guidance complete by the end of 2024. These timings will be reviewed once the consultation responses have been received. Diversity of view in responses, for example, may require more time so that differences of view can be fully considered.

Formatted: Indent: Left: -1.52 cm

Figure 1.1 – 3 step process to developing international NPO Financial Reporting Guidance

⁶ More information about stakeholders and their requirements can be found in paragraphs [2.3 to 2.10 of Part 1: Chapter 2]



4.5 Feedback received in response to this Consultation Paper is of critical importance to the project. It will influence the development of the Exposure Draft (ED), which will be the first point at which detailed solutions are developed. The ED is currently planned to be published in mid-2023, with the final Guidance complete in early 2025. These timings will be reviewed once the consultation responses have been received. Diversity of view in responses, for example, may require more time so that differences of view can be fully considered.

4.6 The overriding aim is to engage stakeholders about the need for common financial reporting guidance that can be applied internationally for NPOs. The Consultation Paper therefore seeks to discuss the issues that are important to those individuals or organisations that have an interest in NPO financial reporting. Stakeholders⁷ include, for example, senior executives in NPOs, grant makers (large donors), regulators, governments (including tax authorities), auditors, NPO finance teams, creditors, academics and members of the public that support or benefit from the work of NPOs

4.34.7 Comment is encouraged from all those interested in NPO financial reporting. The Consultation Paper material has been structured to allow comment on some or all aspects of its contents. This is intended to encourage input from a wide range of individuals or organisations with differing interests in NPO financial reporting.

Formatted: Outline numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0 cm + Indent at: 0.63 cm

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

Formatted: Font: Not Bold

Formatted: Indent: Left: 1.9 cm, No bullets or numbering

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

Formatted: Font: Not Bold

Formatted: Indent: Left: 1.9 cm, No bullets or numbering

Formatted: Outline numbered + Level: 2 + Numbering Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.9 cm

Formatted: Font: Not Bold

⁷ More information about stakeholders and their requirements can be found in paragraphs [2.3 to 2.10 of Part 1:Chapter 2]



4.44.8 The Consultation Paper includes a number of proposals. This includes a proposed model for the basis of developing the Guidance, to enable feedback from constituents to be made from a common base, with reactions comments informing the development of the Exposure Draft.

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

4.54.9 The advice of the project's advisory groups has been taken in developing the Consultation Paper⁸. The Technical Advisory Group comprises a number of national standard setters, and The the Practitioner Advisory Group comprises individuals from across the NPO community. Members of these groups have been appointed in their individual, voluntary capacity.

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

⁸ For further information about the TAG and the PAG see Supplementary information: Additional Project Information.



5. Navigating the Consultation Paper

5.15.4 The Consultation Paper ~~has been developed~~ is in two parts to allow readers to access the material which is of most interest ~~to them~~.

Part 1 ~~addresses broader financial reporting issues and is likely to be of interest to a wide range of individuals and organisations. is written for a more general audience as it deals with the broader issues.~~ It deals with framework issues relevant to General Purpose Financial Reporting ~~in the non-profit sector for NPOs~~. Part 1 includes consideration of the entities that might be NPOs and benefit from the Guidance, the role of accountability and decision making, the features needed of financial reporting for NPOs and describes the suitability of existing international accounting frameworks. Part 1 includes **General Matters for Comment**, with feedback ~~is~~ sought on a number of broader questions including proposals for how the Guidance should be developed. This is supported by supplementary information ~~on more technical issues~~.

Part 2 ~~is written for an audience that is interested in~~ addresses the technical accounting considerations of specific issues ~~and is likely to interest those who prepare, audit or make extensive use of NPO financial reports~~. It sets out the process for the identification of key sector specific issues, with a description of the nature of each issue, and proposes criteria for selecting issues to be included in the initial Guidance. It also provides more in-depth analysis and consideration of alternative approaches to those ~~sector-NPO~~ specific issues. Alternatives are based on relevant existing international and national guidance, with no recommendation made regarding which alternatives should be adopted. Part 2 includes **Specific Matters for Comment**, with questions about the specific issues and possible approaches.

Part 1 – General issues		Part 2 – Specific accounting issues	
What's included	Audience	What's included	Audience
• Characterising NPOs • NPO Stakeholders • Accountability and decision making • Basis of financial reporting • Use of existing international	• Standard setters • Grant makers • Regulators • Auditors • NPO senior executives • NPO finance teams • Academics	• Known issues • Issue prioritisation criteria • In-depth description of 9 issues • Alternative approaches for the 9 issues	• Standard setters • Grant makers • Auditors • NPO finance teams • Financial accountants • Academics

Formatted: Outline numbered + Level: 1 + Numbering
Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned
at: 0 cm + Indent at: 0.63 cm

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

Formatted: Font: Bold

Formatted: Font: Bold

Formatted Table



accounting frameworks	• Government (tax authorities) • Creditors		
General Matters for Comment		Specific Matters for Comment	

[5.25.5](#) **Supplementary material** supports the content in Part 1 [and Part 2](#) and provides further information about the project and how the Consultation Paper has been developed.

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

[5.35.6](#) A **glossary of terms** used in the Consultation Paper provides a general meaning for terms used in the Consultation Paper so that readers have a common understanding and are able to engage with the issues and questions raised. [The terms used and explained in this glossary are not intended to be used as definitions beyond this Consultation Paper, since many have specific meanings in different jurisdictions and in national and international accounting and other professional frameworks.](#)

Formatted: Outline numbered + Level: 2 + Numbering
Style: 1, 2, 3, ... + Start at: 4 + Alignment: Left + Aligned
at: 0.63 cm + Indent at: 1.9 cm

6. Responding to the consultation

- 6.1 Comments are welcome on all of the matters discussed in both parts of this Consultation Paper. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.
- 6.2 Respondents may respond to all questions raised in the Consultation Paper or choose to respond only about certain elements. This includes the ability to respond to only certain specific issues in Part 2, with no requirement to respond to all issues. There is no minimum number of Matters for Comment that can be addressed in a response. However, the greater the number of responses received, the richer the feedback for the project team to consider.
- 6.3 Respondents are requested to include in the response the following details:
 - Name (individual or organisation)
 - Description of the respondent's activities or role if an individual
 - Jurisdiction to which the feedback relates
 - If from an NPO, information about the main funding sources (eg aid agencies, members of the public, membership fees, sales proceeds)



- Information about the accounting standards used for year-end financial statements in the jurisdiction to which the feedback relates.

6.4 [Comments are requested by July x, 2021. Please provide your comments as a word document wherever possible and submit comments **electronically** through the IFR4NPO website (www.ifr4npo.org), using the 'Submit a Comment' link on the Consultation Paper page. All comments will be considered a matter of public record and will ultimately be posted on the IFR4NPO website.]

6.5 Although IFR4NPO prefers that comments be submitted via the website, e-mails may be sent to karen.sanderson@cipfa.org. Comments can also be mailed to:

Head of Programme, IFR4NPO
Chartered Institute of Public Finance and Accountancy
77, Mansell Street,
London,
E1 8AN]