

ANNEX A: Consultation Paper Part 2 Responses – Narrative Reporting

Question 10a – Description of the issue

Comment	Response
Comments from those that agreed	
We note that donors are often interested in narrative reporting and non-financial information and integrate it into their decision-making. However, without a full understanding of users' needs it is challenging to describe precisely what form of narrative reporting would address those needs. We note that the AASB has published a research report to evaluate users' needs across all sectors. As noted in the report's Executive Summary, 'It is recognised by several studies that large donors are able to obtain the information required, whereas other users are restricted to financial reports. Non-financial information is wanted, and narrative reporting is valued. Performance information is also sought, although defining performance is an open question.' The ACNC currently requires limited performance information through the Annual Information Statement (AIS). This includes information on the programs that charities operate, their operating locations and beneficiaries, and a narrative description of how their programs achieve their outcomes. The information allows the ACNC to ensure charities are meeting their charitable purposes and remain entitled to charitable status. Public trust and confidence in the sector is also promoted by making this information available to the public. However, beyond this basic information the sector is left to innovate in relation to developing measures of performance that are tailored to the needs of donors and the broader public. Although there is no narrative reporting standard for Australian charities, we do observe various and innovative ways charities communicate narrative information via annual reports, their websites, social media and other platforms. Guidance that is applied universally may disproportionately burden some sub-sectors more than others. The burden could arise not only because of increased reporting, but due to the difficulty, complexity and cost of collecting certain narrative information. We suggest that the narrative reporting requirements should be proportionate to the size of NPOs.	The intention is that the proposed approach would permit proportionate reporting, with NPOs also able to innovate and provide reporting that is tailored to the needs of their users.
Yes, we agree that narrative reporting (objectives, performance, prospects, governance, and stewardship, number of beneficiaries reached...) is needed in order to have NPO reporting be more meaningful. A guidance is needed to ensure uniformity in reporting by NPO.	Noted.
We agree though we consider that using existing for-profit frameworks may not be helpful in recognising the particular benefits in narrative reporting for NPOs.	Although the mandatory core of the proposed approach is drawn from existing for-profit and public sector frameworks, these are to be adapted to the NPO context. Application and implementation guidance will further support NPOs in applying the framework in a manner that is sector appropriate.
Comments from those that neither agreed nor disagreed	
Although the idea of narrative reporting makes sense, the focus of the narrative reporting on the use of resources does not. Unlike a business where performance and value addition is reflected in the financial statements, this is not the case of NPO's. The narrative in my view should focus on the achievements of the objectives of the charity rather than accounts. In addition NPO's usually report to significant donors on the use of funds provided	The proposed approach does permit NPOs to focus on the achievement of the objectives. Providing financial statement analysis and commentary will however also provide context and meaning to those financial statements for users. The elements proposed in this area also enable the NPO to describe its mission, governance, operating environment and risks which have both a financial and broader performance perspective.

Question 10b – Are the list of alternatives exhaustive

Comment	Response
Comments from those that agreed	
Yes I do agree though Alternative one seems very weak . I would prefer that the alternatives be limited to Alternative 2 or 3. NPOs deal with funds given in good faith and its only fair that stakeholders get to know what the funds actually achieved and the challenges faced therein while attempting to achieve the objectives set out to be achieved. By doing nothing as proposed in alternative one, NPOs are left to their own devices and we have known NPOs that we just briefcase organisation that siphoned donor funds since there were no strict reporting standards in place hence tanking advantage of the gap.	Noted.
We agree, although we would prefer to see greater emphasis placed on the requirements to report upon the difference the NPO has on its beneficiaries as we consider this is a more helpful assessment of societal or public benefit provided by the NPO than financial performance alone. We also consider it is helpful to disclose more on the effectiveness of the organisation's governance structures and processes, noting the importance of this on the success of the NPO in its mission. Narrative reporting is also helpful in illuminating the difference that non-financial support provided by the NPO has on its beneficiaries, for example through the marshalling of volunteer actions and use of non-profit assets to aid beneficiaries such as through the provision of facilities.	The proposed approach will support NPOs in reporting on the difference the NPO has made beyond financial performance and on effectiveness of areas like governance.
Comments from those that disagreed	
Apart from IIRC (SASB, Value Reporting Foundation) GRI and the possible IFRS Foundation Sustainability Standards should be considered.	Under the proposed approach NPOs will be able to apply sustainability reporting frameworks provided the mandatory core is also met.
There is at least one additional option - the development of new guidance based on users' needs, which is highly likely to be different to all the other options. Ideally the alternative would be proportionate based on NPO size, complexity, and resources. We consider that a principles-based approach is better suited to the NPO sector because of its diversity – there is no 'one size fits all' option. The comparability of data would affected, but to a certain extent this is inevitable with any option due to the diversity of the sector. The New Zealand Service Performance Reporting for Public Benefit Entities (PBEs) standard, although not an international standard, is a modern standard. It is targeted specifically at PBEs that share common characteristics with NPOs, with differentiated reporting that are more prescriptive for Tier 1 entities that are better able to carry that additional burden. A post implementation review was recently undertaken. The ACNC's own Annual Information Statement gathers narrative reporting information from charities in questions relating to programs.	User needs have been further explored through discussion with both the Practitioners Advisory Group and a specific narrative reporting focus group. It is our intention to draw on jurisdictional-level frameworks in accordance with the financial reporting hierarchy to ensure that the guidance is appropriate in the NPO context. A high level framework based on principles should also permit jurisdictional level adaptation.
Often NPO's prepare separate financial statements and general purpose narrative reports which are publicised and shared with donors or available via websites. The narrative reports describe the work of the NPO rather than focussing on the numbers, I would think these narrative reports if available in a timely fashion suffice. Encouraging NPOs to produce an annual narrative report rather than making it a requirement would be another alternative.	Narrative reporting is necessary to give context to financial information presented in the financial statements and to meet the broader information needs of stakeholders. This requires the narrative reporting to be presented alongside the financial statements as part of the GPFR.

Question 10c – Advantages and disadvantages of the alternatives

Comment	Response
Comments from those that agreed	
Yes - however, Alternatives 2 or 3 will need to be fleshed out with guidance for preparers and auditors, in order to ensure that reports are consistent over time and comparable across different organizations.	Application and implementation guidance will be developed alongside the core requirements,
I agree with Alternatives 2 and 3. The disadvantages over time will be overcome. For Alternative 1 the stakeholders are disadvantaged that would negatively impact funding and accountability	Noted.
We agree, as comprehensive narrative reporting is a key component of maintaining public trust and making NPOs transparent and accountable.	Noted.
Comments from those that disagreed	
Option 2 and 3 may result in additional assurance costs. There is an assumption that options 2 and 3 will benefit stakeholders but the extent of the benefit is difficult to quantify without fully understanding users needs.	User needs are being explored through outreach event such as focus groups and discussion with the Practitioner Advisory Group. Additional assurance costs will be dependent on the extent to which financial and performance information is already available to NPOs and jurisdictional level approaches to audit.
No. Whilst we agree that there is a need for an international reporting framework in relation to narrative reporting, as there are many aspects of NPOs that stakeholders across the world will find useful if reported consistently, it needs to be acknowledged that there will always be jurisdictional aspects of narrative reporting. For example, stakeholders of any NPO will want to understand its aims, objectives, and activities, as well as its achievements in the reporting period against them. As well as this, all stakeholders will be interested in the future plans of an NPO and will make economic decisions based on this. This information puts the financial information provided in the financial statements into context, and bridges the gap between this financial information and the performance against their objectives. Another piece of information that would be relevant for stakeholders, is how they, and the wider society in general, are considered when the NPO is making decisions for example, how the NPO considers its impact on its stakeholders when planning its activities. However, there is some information that is likely not going to be relevant in every jurisdiction. For example, in the UK, it is important for stakeholders to understand how a NPO is constituted. This may not be relevant for all jurisdictions. So, it is likely that whilst there is a need for a central framework, there will still be elements of the narrative reporting that will have to be driven by local legislation and guidance	The intention is to provide a mandatory core of narrative reporting that covers the areas raised. It is expected that individual jurisdictions may require additional information beyond this and that NPOs may need to report on other areas based on local legislation and guidance.

Question 10d – Preferred alternative

Comment	Response
Alternative 1	
Alternative 1 with encouragement that at a minimum a general purpose narrative report be produced.	Not all jurisdictions require the production of a general purpose financial or narrative report so alternative 1 would not provide for a base level of consistency and comparability between NPOs.
Alternatives 1 or 2 looks preferable. An idea to develop overall reporting framework looks nice but a bit unrealistic especially taking into consideration variety of NPOs and local regulations.	The proposed mandatory core of reporting is designed to take into consideration the variety of NPOs and local regulations. Application and

	implementation guidance will support NPOs using the framework.
Alternative 2	
Alternative 2. Some narrative reporting is pushing beyond the responsibility of finance professionals and cause difficulties in gaining the information from other staff & being sure of the reliability of information. I just want to be responsible for financial information! We rely on our annual (non-financial) report for narrative reporting.	The non-financial information that is required under the proposed approach is likely to be the kind of information provided within an annual report for
Alternative 2 as including narrative report will complete the information for reading the financial report.	Noted.
Alternative 2 - As it envisions additional guidance to assist NPOs in meeting this requirement.	Noted.
We support alternative 2. However, we believe substantial simplification of the current requirements/recommended practice in IFRS and IPSAS will be required to ensure a cost/benefit balance is achieved for NFPs applying the guide. In particular, we agree with the disadvantages highlighted for alternative 2, including that greater judgement will be required in difficult areas such as forward-looking information and non-financial measures and indicators. Feedback we have received from our members indicates that non-financial measures and indicators for outcomes can be particularly challenging. In order to avoid some of the challenges associated with the requirements/recommended practice in IFRS and IPSAS, the first version of the guide could include some of the simpler and easier-to-apply principles that currently exist. This could include: • Entity specific information about how an NFP is structured, managed and governed, such as the nature of entity, its legal form and the constitution or governing document under which it operates. • Information about an NFP's purpose, its mission, vision, values and objectives. • Information about any major programs or other initiatives, including those that may stretch over a multi-year period, signposting specific activities that may relate to that particular year. In this regard, since 2016 New Zealand has been requiring its smaller charities to prepare a Statement of Service Performance. The outcomes of a recently completed post-implementation review of these requirements revealed that respondents found the objectives and requirements of the statement of service performance (SSP) difficult to understand. This emphasises the need to keep requirements simple, objective and readily obtainable.	The intention is to ensure that the mandatory core requirements of the proposed approach will be applicable by all of the NPOs that apply INPAG. The experiences of jurisdictions such as New Zealand are being reviewed for lessons learned that can be applied to both the requirements and the application and implementation guidance to support NPOs.
We favour alternative 2 as it is aligned with other international standard setters' practices and it would improve on consistency in NPO narrative reporting. However, relevant local requirements should also be complied with.	The intention is to provide a mandatory core of reporting with the expectation that some jurisdictions will also require additional reporting.
Alternative treatment 2. We consider that some narrative reporting should be required to accompany the financial statements. However, the requirements should be principles based and not prescriptive so that the level of detail is proportionate to an NPO's size and complexity.	The intention is to ensure that the requirements are principles based and will permit NPOs to proportionately report.
Alternatives 1 or 2 looks preferable. An idea to develop overall reporting framework looks nice but a bit unrealistic especially taking into consideration variety of NPOs and local regulations.	The proposed mandatory core of reporting is designed to take into consideration the variety of NPOs and local regulations. Application and implementation guidance will support NPOs using the framework.
Alternative 3	
Better communication with all stakeholders, with improved and fuller understanding by all stakeholders of the performance, position and prospects of NPO.	The proposed approach would permit NPOs to apply integrated reporting provided that the core mandatory requirements are also met.

Alternative 3. This will maximize the usefulness of financial reports and reduce the risk of certain stakeholders (e.g. donors) seeking additional reports from NPOs. I am also comfortable with Alternative 2. I do not like Alternative 1; as noted in the paper, this would be a missed opportunity.	The proposed approach would permit NPOs to apply integrated reporting provided that the core mandatory requirements are also met. As noted alternative 1 would be a missed opportunity.
Alternative 3. - If there are entities that should inform the stakeholders in the best way, those are the NPOs. The best integrated reporting framework should be applied with specific mandatory requirements for NPOs based on their size and nature. If NPOs are pioneers against profit entities in the use of this model, that would be exactly the right thing to do.	At this stage requiring all NPOs to apply integrated reporting is deemed too burdensome. Those that wish to do so will be permitted under the proposed approach provided that the core mandatory requirements are also met
Alternative 3, again because narrative reporting is specific to NPOs and I think an alternative that has the potential to speak specifically to this issue is welcomed.	Noted. The proposed approach should provide sufficient flexibility to enable NPOs to report in a manner that is specific to them and their users.
Alternative 3 . There is a framework already in place and which would greatly aid in report preparation. Additionally the interests of all stakeholders are taken into account and this creates professionalism in all NPOs	As noted at this stage requiring all NPOs to apply integrated reporting is deemed too burdensome. Those that wish to do so will be permitted under the proposed approach provided that the core mandatory requirements are also met.
Although alternative #3 is more ambitious than the 2 others, this consultation should be the platform for a more standardized narrative reporting based on stakeholder needs. Despite the uncertainties about the cost of preparation under alternative #3, those could be offset by a clear framework as basis for narrative reporting.	Additional work is being undertaken through focus groups and discussion with the Practitioner Advisory Group to better understand stakeholder needs and ensure that the proposed approach meets them.
We favour Alternative 3 as we consider that it is important to develop a sector focussed framework for reporting which provides a strong template for the areas that need to be addressed whilst leaving latitude for interpretation according to the particular activities of the individual NPO, recognising the diverse nature of the sector.	As noted at this stage requiring all NPOs to apply integrated reporting is deemed too burdensome. Those that wish to do so will be permitted under the proposed approach provided that the core mandatory requirements are also met
Alternative option	
Without a better understanding of users' needs it is difficult to assess which option is preferable, or whether, in fact, another alternative should be developed. We note that all alternatives are based on an international framework. The ACNC supports developing global best practice guidance on what good narrative reporting includes. It may be worth drawing on jurisdictional standards as mentioned in 10(b).	In order to gain a better understanding of user needs, a focus group has been held and the approach is being discussed with the Practitioner Advisory Group. As indicated jurisdictional standards are also being examined.

Question 10e – 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?

Comment	Response
Comments from those that agreed	
Yes so that the reports maybe comparable and capturing all key issues to be reported	Noted. The proposed approach is set at the level of a framework and principles.
Yes I agree that narrative reporting guidance should be set at the level of a framework and principles	Noted.

Yes Because of the diverse nature of NPOs and the activities they can engage in, it stands to reason a better approach will be to look at the issue from a framework and principles perspective than a specific reporting requirement.	Noted.
Yes Definitely framework and principles. It is too difficult to make specific reporting requirement that would suit all types of NPO.	Noted.
The main challenge with addressing this area is its timing, as there are a number of international initiatives developing non-financial reporting frameworks. Consistent with the guidance on financial reporting, we believe any Guidance should leverage from these initiatives, rather than being developed in isolation from them. Over time, market participants are likely to converge on one or more of these frameworks as the preferred approach. Therefore, waiting for these initiatives to evolve would allow the project to leverage from the most generally accepted framework as the basis for the Guidance. In the interim, we recommend that this area is addressed by developing a set of high-level principles for non-financial reporting. These could identify key areas for NPOs to consider when preparing non-financial information, signalling the key role it plays in NPOs' general purpose financial reports. These principles could then be used as the starting point for more detailed guidance.	This is one of the reasons why a relatively small mandatory core of reporting has been proposed, with NPOs given the freedom to report beyond this should they wish to do so.
Guidance should be set at the level of framework and principles because this better allows for the diversity of the NPO sector. However, a more complete understanding of users' needs would be needed to better develop any approach. We also note that smaller NPOs may prefer more prescriptive standards, templates and examples because of their limited resources.	As indicated additional work is being undertaken through focus groups and discussion with the Practitioner Advisory Group to better understand stakeholder needs and ensure that the proposed approach meets them. Application and implementation guidance will be developed to support NPOs
Although narrative reporting guidance should be set at the level of a framework and principles, it may be appropriate to provide additional guidance on how to apply the framework and principles	Application and implementation guidance will be developed to support NPOs.
The framework and principles approach should be fine as long as there guidance is provided on the level of detail expected to be provided by the NPO. We consider that since the cost of providing this level of reporting is significant and the NPO would require sufficient expertise to draw this up, it would be appropriate to only make this a requirement for larger NPOs above a minimum size threshold. is emphasis placed on the requirements for organisations to report upon the differences they have on their beneficiaries.	Application and implementation guidance will be developed to support NPOs. Under the proposed approach all NPOs will need to provide narrating reporting information.
We consider that reporting guidance should be set at the level of a framework and principles so that NPOs have flexibility in the level of detail and the focus of their reporting. However, the principles should encourage multi-year trend analysis in graphical formats	The proposed approach is flexible to allow NPOs to report in the manner that best meets their user needs.
We think that narrative reporting guidance should be set at the level of a framework and principles, along with suggested 'best practice' recommendations, rather than obligatory standard that all organisations must follow. This would allow organisations to adopt the framework and principles, while still leaving freedom with respect to the specific information disclosed so that it can be tailored to the local reporting environment. We also think that narrative reporting should accompany the financial statements as a separate document and not be brought under the scope of the audit opinion on the financial statements. The financial statements should continue to explain where resource come from and what they spent on, with the narrative reporting	Although set at the level of a framework and principles, the proposed approach is for a mandatory standard that all NPOs will be required to comply with. There will be freedom and flexibility to disclose specific information should this be required at a jurisdictional level.

document providing supplementary information that is required for readers of the financial statements to obtain a more fulsome view of the organisation and whether it is accomplishing its purposes.	
Comments from those that disagreed	
My biggest concern is that we could be creating risks without thinking. What about the risk of disclosing details of controversial activities in oppressive states. If information, especially narrative reporting, reveals evidence of illegal/repressed activities (either overtly or by clear omission) then the organisation or project could be shut down and NPO employees, their auditors and others could be in personal danger. If some sort of exemption is granted how can it be defined? How can it be used without disclosure (that would itself be evidence of such activities)? If this is justification for an exception, can other claims for exceptions be denied? What then for an international standard?	This is an important point and application and implementation guidance will deal with the circumstances in which disclosure can be reduced to take into consideration these issues.
I recommend the specific reporting requirements to support the financial report.	Noted.
Even though narrative reporting could be set at the framework level, more reporting requirements should be available to ensure standardization of reporting across all NPOs. It's difficult to box this into framework and principles – various funders will inevitably come in with specific requirements in narrative reporting and therefore this would somehow need to be taken into account.	Although the GPFR are aimed at general users and not specifically funders, it is expected that NPOs will look to use existing performance reporting to donors and others in their narrative reporting.
Both approaches have their merits. Having open ended principles for disclosure is less likely to stunt the disclosure made by NPOs and the information is likely to be more relevant to the NPO. However, when provided with principle-based requirements, there are likely to be NPOs who provide the bare minimum, which may not meet stakeholders needs. Alternatively, providing specific reporting requirements does ensure that all NPOs provide the information required by stakeholders. However, in some situations, information can become standing data that is just rolled forward each year, with preparers only ensuring that they meet the minimum requirements. This standing data can then obscure other perhaps more important information that a preparer has included in their narrative reporting. Our preference would be for specific requirements which meet the minimum stakeholder requirements, but which are open ended to encourage additional disclosure, and which are specific to the period being reported on to ensure the information remains relevant,	Noted, The proposed approach should provide the minimum needed to meet stakeholder requirements with the freedom for NPO to report beyond this.