

Section 35 – Narrative reporting (New)

Scope of this Section

- G35.1 This Section sets out narrative reporting requirements for NPOs. It provides guidance on the narrative reporting information that is to be presented by an NPO in the same general purpose financial report as its financial statements. [The narrative report is published along with the general purpose financial statements to form the general purpose financial report but is not a part of these general purpose financial statements.](#)
- G35.2 This Section sets out the minimum narrative reporting requirements for NPOs applying INPAS. [It includes the principles for all narrative information and the minimum requirements for the categories of information to be covered.](#)
- G35.3 When an NPO is able to go beyond these minimum requirements and presents additional information, it may do so provided that the minimum requirements have been met. [The principles and high-level requirements of the Section permit a flexible approach. An NPO shall report in a manner that best meets the needs of its primary users.](#)
- G35.4 When [an NPO is required to comply with jurisdictional legislative or equivalent narrative reporting requirements, these disclosures should be combined with those specified by this section to avoid duplication, where possible.](#)

Principles

- G35.5 An NPO shall present [narrative reporting information](#) that is useful for accountability and decision-making purposes in the same general purpose financial report as its financial statements. An NPO needs to assess the narrative reporting information that would be of use to its primary users. An NPO shall use this assessment to inform the selection and the type of information reported and the format of its presentation. [Narrative reporting information](#) enables users to assess the performance of the NPO and provide context to the information included in the financial statements.
- G35.6 The narrative reporting information presented shall be for the same reporting NPO and reporting period as the financial statements.
- G35.7 [An NPO's narrative reporting information shall be balanced. Information is balanced if it is not skewed, emphasised, de-emphasised or otherwise presented to make it more likely that primary users will receive that information favourably or unfavourably.](#)
- G35.8 When selecting [narrative reporting information](#) in a general purpose financial report, an NPO shall apply the qualitative characteristics and the cost constraint on useful information identified in [Section 2 Concepts and pervasive principles](#). The narrative report shall:
- provide faithful representation of the NPO's operations and activities;

- b) provide relevant information that is capable of making a difference in the decisions made by users, ie it is material;
- c) provide information that is comparable between reporting periods;
- d) provide information that can be verified;
- e) be provided on a timely basis; and
- f) be understandable by the users of the general purpose financial reports.

This will result in **narrative reporting information** that is useful to users of the NPO's general purpose financial report.

- G35.9 **A reported item in the narrative report is material if its exclusion or misstatement would affect the decision and assessments made by users of the general purpose financial report. As such materiality depends not just on size but also on the nature of the information provided.**

Information to be included in the narrative report

- G35.10 An NPO shall present information:
- a) on its performance objectives and what it has done during the reporting period in working towards those performance objectives; and
 - b) present commentary to discuss and analyse its financial statements.
- G35.11 An NPO shall provide narrative reporting information related to the following categories:
- a) an overview of the NPO;
 - b) performance reporting;
 - c) financial objectives and strategies;
 - d) analysis of the NPO's financial statements; and
 - e) principal risks and uncertainties.

An overview of the NPO

- G35.12 An NPO shall provide an overview to present contextual information for the narrative report. The overview shall consider responses to the following questions:
- a) Who are we? – a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it.
 - b) What do we exist for? – a description of the purpose for which the NPO exists, including any formal mission and vision statements.
 - c) What do we do? – a description of the NPO's main activities, including significant relationships the NPO has with other entities.

Performance reporting

- G35.13 An NPO shall present information on:
- a) the performance objectives of the NPO and what it intended to achieve during the reporting period; and
 - b) what it has done in working towards those performance objectives including what is has achieved during the reporting period.

- G35.14 The NPO shall provide performance measures and descriptions to demonstrate its performance for the reporting period. The performance measures and descriptions (including, for example, those relating to the meeting of service, project or activity objectives) will depend on the NPO and its performance objectives, but must have regard to:
- a) **Quantitative measures** that provide a numerical measurement by which to assess performance – for example, the quantity of a particular good or service provided by an NPO, or ratings by service users on a scale of 1–10.
 - b) **Qualitative measures** that provide a non-numerical measurement by which to assess performance – for example, whether the goods and services provided by an NPO were in accordance with a particular quality standard, or ratings by service users of high/medium/low.
 - c) **Qualitative descriptions** that provide a non-numerical description by which to assess performance – for example, descriptions by individuals supported by the NPO of improvements made to their wellbeing from open-ended questions in interviews.
- G35.15 An NPO shall exercise judgement to ensure that it provides information that is useful for accountability and decision-making purposes to users of the general purpose financial report. The principles in paragraph G35.8 will guide these judgements.

Financial objectives and strategies

- G35.16 An NPO shall provide information on its objectives and strategies relating to its financial position, income and expenses, net assets and cash flows. This information shall:
- a) identify the resources that must be managed by the NPO to achieve its financial objectives and strategies; and
 - b) demonstrate how these financial objectives and strategies support the achievement of the NPOs performance objectives.
- G35.17 An NPO shall also report significant changes in its financial objectives and strategies from the previous period or periods, and the impact this may have on the achievement of its performance objectives.

Analysis of the NPO's financial statements

- G35.18 An NPO shall include an analysis of significant changes and trends in its financial position, income and expenses, net assets and cash flows. An NPO applies judgement to provide a focus on significant and important financial statement items. The NPO shall not simply reiterate the information presented in the financial statements. Specifically, the analysis shall not repeat the disclosures made in accordance with Section 8, but these disclosures may inform the analysis.
- G35.19 An NPO's narrative report shall clearly present the financial statement analysis to demonstrate coherence with items in the financial statements. Any adjustments made to information from the financial statements in producing the financial statement analysis shall be disclosed along with the nature and reasons for the adjustment.

G35.20 As part of this analysis, the NPO shall provide information on the impact of significant changes and trends in its financial position, income and expenses, net assets and cash flows have on the achievement of its performance objectives.

Principal risks and uncertainties

G35.21 An NPO shall provide information on the principal risks and uncertainties that affect the achievement of its performance objectives and its financial position, income and expenses, net assets and cash flows. This shall include:

- a) an explanation of how these risks and uncertainties relate to the performance objectives and financial objectives and strategies of the NPO;
- b) an explanation of changes in those risks and uncertainties since the last reporting date; and
- c) how the NPO manages risks and uncertainties.

Presentation

G35.22 Narrative information shall be clearly identified. Information provided in the narrative report shall adhere to the principles specified in paragraphs G35.5–G35.9 and be presented in a clear and concise manner.

G35.23 An NPO shall consider the format of the information that it provides when applying the requirements of this Section.

G35.24 Cross-referencing of narrative reporting information to the financial statements will enable users to understand and assess the narrative reporting information within the context of the financial statements.

G35.25 In addition to cross-referencing of information to the financial statements within the general purpose financial report, an NPO may also consider it beneficial to cross-reference to information that is held outside of the general purpose financial report. For example, it may be appropriate to provide users with additional detail on performance objectives and to reduce the volume of information provided in the general purpose financial reports.

G35.26 When an NPO does cross-reference to information held outside of the general purpose financial report, it shall ensure that:

- a) a complete set of narrative reporting information is provided to users in the general purpose financial report in accordance with this Section – an NPO shall not simply provide references to information held elsewhere; and
- b) the cross-referenced information held outside of the general purpose financial report is, and will remain, unchanged and available to users of the general purpose financial report.

Comparative information and consistency of reporting

- G35.27 The usefulness of **narrative reporting information** to users is improved through the provision of comparative information and consistent reporting by an NPO.
- G35.28 Comparative information shall be provided by an NPO for the preceding **reporting** period for amounts and descriptive information reported in the current **reporting** period. The provision of comparative information shall be consistent with the principles in **Section 3 Financial statement presentation** (see paragraph **G3.14**).
- G35.29 When the information is narrative or descriptive, judgement may be required in determining what and how to disclose comparative information.
- G35.30 **Narrative reporting information** shall be reported consistently by an NPO. When changes are made to what **an NPO reports** or how an NPO reports its **narrative reporting information**, the reasons for and the nature and effect of these changes shall be explained.
- G35.31 **When changes are required to narrative reporting information, for example, if an NPO changes its missional purposes or measures performance in a different way the NPO shall provide the reason for the change and explain its impact on reported information.**
- G35.32 If an NPO becomes aware of material prior period errors, whether this is related to numerical or descriptive information, it shall correct these by restating the comparative information for any prior period(s) presented in the general purpose financial reports and disclose an explanation of the error.
- G35.33 **A material prior period error occurs either when narrative reporting information has either been materially misstated or omitted altogether in a previous general purpose financial report. When an NPO becomes aware that a material prior period error has occurred the NPO shall correct this in the next general purpose financial report it produces by restating comparative information for any prior periods presented and by disclosing an explanation of the error.**

Disclosure of judgements

- G35.34 An NPO will use judgement in the selection and presentation **of narrative reporting information** that is reported in accordance with this Section. An NPO shall disclose those judgements that are most relevant to users' understanding of the NPO's **narrative reporting information**.

Reporting of other information

- G35.35 An NPO may choose or be required to present additional information in its general purpose financial report beyond the narrative reporting required in this Section. When it does so, the additional information shall, as far as possible, be presented in compliance with the requirements of this Section (principles, presentation, comparative information, consistency of reporting, and disclosure of judgements).

- G35.36 An NPO shall consider reporting other relevant information that goes beyond the categories listed in paragraph G35.10 where this enhances the understanding of the narrative reporting information for the users of the financial report. This could include environmental, social and governance (ESG) information, and/or broader sustainability reporting.
- G35.37 When other information is included in the narrative report in accordance with paragraph G35.35, this shall follow the requirements, as far as possible, of Section 35. When providing such other information NPOs shall ensure that it does not obscure the information required by paragraphs G35.10 to G35.22.
- G35.38 If an NPO decides it will be useful to provide other information in the narrative report, it should, if possible, be based on standards or guidance that are prescribed elsewhere, or sector established practices and norms such as international standards for sustainability reporting, governance codes or requirements or recognised performance indicators.
- G35.39 When other information is provided, the basis of preparation shall be described. Any standards, practices or other approaches used in the provision of other information shall be disclosed.
- G35.40 The basis of preparation and the standards, practices and other approaches used for the reporting of other information shall be consistently applied. When other information is no longer relevant or useful its use shall be discontinued. When it is discontinued, the reason it is no longer reported shall be disclosed in the narrative report for the reporting periods including comparative periods in which it has been discontinued.

Section 35 – Narrative reporting

Background and history

- BC35.1 The IFR4NPO Consultation Paper proposed in Part 1 that one of the core premises of the INPAS, in order to meet its objectives, would be the inclusion of non-financial reporting information, also known as narrative reporting. This would lead to NPOs producing general purpose financial reports rather than just general purpose financial statements.
- BC35.2 A detailed description of the issue was included as part of Issue 10: Narrative Reporting in Part 2 of the Consultation Paper. This highlighted the importance of non-financial information for NPOs to demonstrate accountability and stewardship to stakeholders, and the difficulty caused by varying disclosure requirements globally.
- BC35.3 Respondents to Part 1 of the Consultation Paper provided feedback on the expected challenges from the inclusion of non-financial information reporting requirements for NPOs. At a conceptual level, respondents highlighted issues such as scope, timing of introduction, prescription and flexibility, the reliability and integrity of data, and integration with existing performance reporting. A number of practical challenges were also raised, including NPO capacity and capability, costs and expertise, and subjectivity in reporting.
- BC35.4 For Part 2, respondents were asked to provide feedback on the description of the issue, the alternative treatments proposed, and whether the guidance should be set at the level of an overarching framework and high-level principles, or include more specific reporting requirements. Respondents to Part 2 were supportive of the description of the issue (and were mainly in agreement with the list of alternatives identified. Substantive comments received from respondents included a need for a fuller understanding of users' needs to determine how they can be met, which could require a solution not presented as an alternative. There was also support for narrative reporting to focus on an NPO's objectives, its impact, the effectiveness of the organisation's governance structures and processes, and broader sustainability issues, rather than being restricted to financial statement analysis.
- BC35.5 With respect to the alternatives put forward in the Consultation Paper, there was little support for the do-nothing alternative, which was widely seen as a missed opportunity. There was relatively even support amongst those providing a preference for the other alternatives, with the approach based on the Integrated Reporting Framework being slightly more favoured than an approach based on IASB/IPSASB guidance .
- BC35.6 Those favouring the IASB/IPSASB guidance approach were of the view that it would complement the information in the financial statements and would be less complicated for NPOs to apply. Those favouring the Integrated Reporting Framework approach felt

that, although more ambitious, it offered an opportunity for NPOs to apply emerging best practice and to deliver standardised narrative reporting based on stakeholder needs.

- BC35.7 With respect to whether guidance should be set at the level of an overarching framework and high level principles, or if specific reporting requirements or recommendations should be required instead, the majority of respondents noted that the diversity of NPOs and jurisdictions pointed to the need for a framework and principles-based solution. Some of these respondents noted, however, that this would need to be backed by detailed guidance on how to apply the framework and principles.
- BC35.8 Analysis of the Consultation Paper responses supported a framework and principles-based approach that provides mandatory core of narrative reporting requirements that could be applied by all NPOs.
- BC35.9 Concerns were raised by Technical Advisory Group (TAG) member and Practitioner Advisory Group (PAG) members and by attendees at additional outreach events that requiring all NPOs to comply with narrative reporting requirements could act as a barrier to the adoption of INPAS.
- BC35.10 While feedback from these groups was that the narrative reporting proposals could bring significant benefit to both the users of NPOs' general purpose financial reports and the NPOs themselves, international guidance in this area is not mandatory and there are only a few jurisdictions that mandate NPOs to undertake this type of reporting to produce general purpose financial reports.
- BC35.11 Exposure Draft 1 (ED1) contained proposals for a mandatory core of narrative reporting. The approach proposed was intended to be adaptable, so that NPOs wishing to go beyond this core could do so provided that the mandatory topics and elements important to users of all NPO general purpose financial reports are met. This Section was designed to ensure a base level of consistency and comparability amongst all NPOs applying the INPAS, while providing NPOs the freedom to move beyond this to meet the needs of the users of their general purpose financial reports.
- BC35.12 A small number of respondents to ED1 suggested differential reporting either for smaller NPOs, or to make use of efficiencies within groups. Other respondents discussed the resource implications for the introduction of INPAS with one suggesting that narrative reporting should be separated from the main INPAS guidance on general purpose financial statements. The Secretariat considered these responses but was of the view that the benefits of increased transparency and accountability of having a consistent minimum mandatory core of reporting that could be applied by all outweighed any form of differential reporting. Noting that INPAS is not intended for very small NPOs, the Secretariat was also of the view that any form of differential reporting might also make Section 35 more complex.

Transition period

- BC35.13 It was recognised that for some NPOs, the narrative reporting required by INPAS might represent a challenge, particularly if the NPO is also transitioning to accrual accounting at

the same time. Extensive guidance was developed to assist in implementing these requirements through the implementation guide and implementation examples. The option for an extended transition period of two years was supported by a focus group on narrative reporting, and was considered alongside other feedback as evidence of support for an extended transition period.

BC35.14 Respondents to ED1 supported the transition period though there was some limited debate about its length. This was also subject to consultation as a part of Exposure Draft 3, where it was proposed in a new Section 38 *Transition to INPAS*, that for the first two years following the date of first adoption of INPAG an NPO may make an explicit and unreserved statement in its financial report of compliance with the INPAG requirements for the financial statements only rather than a statement of compliance with the full requirements of INPAG. Further comments about transition to INPAS are provided in the Basis for Conclusions for Section 38.

Scope

BC35.15 The narrative report focuses on the information needs of the primary users of an NPO's general purpose financial report as described in Section 2 *Concepts and pervasive principles*. Other users for example, the NPO's employees, or members of the public not benefitting from the activities of the NPO might also find information in the narrative report useful. However, those other users might have special or additional reporting information requirements. Meeting these information requirements is not an objective of an NPO's narrative report.

BC35.16 The narrative reporting requirements have been developed as a mandatory framework, using a principles approach based on the existing international and national guidance. The international and national guidance was used instead of the Integrated Reporting Framework as it is expected to be less complicated for NPOs to apply and will complement the information in the financial statements rather than require NPOs to also apply broader integrated reporting principles.

BC35.17 In developing this Section, the requirements of the international and national guidance were tailored to meet the needs of users of NPO general purpose financial reports and to reflect the capacity and capability of the NPOs that the INPAS is initially aimed at.

Principles

BC35.18 The information in the narrative report is to be presented in accordance with certain principles including:

- the performance information and financial statement commentary should be for the same reporting NPO and reporting period as the financial statements;
- in selecting and presenting the performance information and financial statement commentary the NPO should apply the qualitative characteristics and pervasive constraints on information in Section 2 *Concepts and pervasive principles*;
- the NPO should also ensure that the performance information and financial statement commentary presented is fair and balanced; and
- non-disclosure of aspects of performance information and financial statement commentary would be permitted where an NPO engages in 'sensitive' activities. This

would mean that where the activities of the NPO would be compromised by aspects of the narrative report, for example specific humanitarian aid programs, this can be omitted.

BC35.19 Respondents broadly agreed with these principles (though see below commentary on sensitive information) and were concerned to ensure that there is separation of the information presented in the narrative report and the financial statements. Clarifications were therefore made that information to be presented in the narrative report must be separate from the financial statements and the explanatory notes.

BC35.20 A respondent also suggested that the description of the narrative report should be changed to NPO annual report. The Secretariat considered this but was of the view that narrative report probably best encapsulates the reporting requirements. NPOs are however, permitted to use alternative terms if this will be better understood by users of its financial statements.

Information to be included in the narrative report

BC35.21 NPOs are required to provide information as a minimum on the following defined categories:

- **Overview of the NPO** – contextual information that enables users to understand the NPO such as legal form, structure, governance, purpose, mission, vision, main activities and significant relationships.
- **Performance information** – information on performance objectives and plans and what has been achieved with measures and descriptions to demonstrate performance being a mix of quantitative measures, qualitative measures and qualitative descriptions.
- **Financial objectives and strategies** – information on an NPO's financial objectives and strategies in relation to its financial position, income and expenditure, net assets and cash flows and how these support the achievement of its performance objectives.
- **Analysis of financial statements** – information on significant changes and trends and how these impact on the achievement of its performance objectives.
- **Description of principal risks and uncertainties** – information on principal risks and uncertainties and how these relate to the NPO's performance objectives and financial objectives and strategies. Any significant changes and how the NPO manages risks and uncertainties should also be included. This information will help users to evaluate the impact of those risks and uncertainties on the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows in the current period, as well as expected longer term outcomes.

BC35.22 Respondents to ED1 agreed with the scope of these reporting requirements. It was noted that there is a risk that mandatory reporting requirements could create unintended consequences, for example, if the requirements duplicate or conflict with existing regulatory requirements. This risk is mitigated by the use of a principles based approach and by being based on existing international and national guidance. Guidance to address potential conflicts has been added along with guidance to encourage the avoidance of duplication of information.

BC35.23 While reviewing the authoritative guidance post the ED1 feedback the Secretariat was concerned that the focus on performance information and financial statement commentary rather than narrative information meant there could be confusion that this did not cover all the subject matter in the categories. Consequently, terminology was changed to narrative reporting information which includes performance information and financial statement commentary.

Sensitive information

BC35.24 Permission to not disclose information was introduced to the proposals in ED1 following recommendations from the project's PAG and a specific focus group that was created to provide additional advice to the INPAS Secretariat on narrative reporting. These groups noted that the mandatory nature of the narrative reporting proposals would cause difficulties for some NPOs if they were required to disclose information that could jeopardise the safety and security of staff, volunteers, or the public that benefit from the goods and services provided by the NPO. They also noted that subsequently requiring NPOs to disclose that they had made use of the permission to not disclose information on 'sensitive' activities could also be problematic, especially if this were to highlight the nature or substance of the information that was not being disclosed.

BC35.25 The possibility that exercising a permission to not disclose sensitive information could be misused by NPOs was considered. TAG members were concerned that an exemption could be used to hide poor performance or financial problems that may have arisen with aspects of an NPO's operations. These concerns were exacerbated if there were no requirement to disclose that information relating to 'sensitive' activities had been withheld. Consequently, it was proposed that where an NPO uses the sensitive information exemption, that the NPO be required to disclose that the narrative report has been prepared in accordance with the requirements of the sensitive information exemption paragraph. NPOs were not, however, required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information.

BC35.26 Respondents to ED1 agreed that sensitive information could be excluded from the narrative report. However, respondents were of the view that more guidance should be included to ensure that adverse practices are avoided.

BC35.27 Respondents had views at opposite ends of the spectrum. Some respondents raised concerns about transparency affecting the rights of users and whether the exemption adversely impacted the information needed to take decisions. Other respondents were concerned that the inclusion of a statement in the narrative report that the information had been prepared in accordance with the exception paragraph for sensitive information could place the NPO, its beneficiaries or staff in danger.

BC35.28 Further outreach supported both of these concerns with requests to add guidance on the issue. The non-disclosure of sensitive information is a complex issue, with a need to balance the need for transparency and accountability and the risks of the reporting of sensitive activities and issues which might prejudice the mission of the NPO and bring about, for example, physical harm.

BC35.29 TAG members were of the view that more guidance could be provided to support the preparers of NPO general purpose financial reports. Additional guidance was produced, but the amount of additional guidance risked it becoming rules based. More prescriptive, rules based guidance may be more problematic for NPOs that have sensitive information than providing information based on principles. The Secretariat was concerned overall that the guidance developed to meet the concerns of respondents might not have met its original intention.

BC35.30 Following further discussion with both PAG members and TAG members the Secretariat concluded that removing the exception for sensitive information from the Section 35 authoritative guidance would on balance be preferable. Instead, the reporting of sensitive information has been addressed in the Implementation Guidance for Section 35.

BC35.31 The Implementation Guidance includes provisions on sensitive information which:

- sets out that information should be excluded where there is risk to the safety or wellbeing of the NPO, its staff and volunteers;
- indicates that the NPO should consider reporting on certain information that has been excluded;
- provides examples of circumstances where information might be sensitive;
- clarifies that the guidance on information which might be excluded is not to be used as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations; and
- indicates that an NPO will remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded.

BC35.32 In reaching this position, the intention is that an NPO should not disclose or be forced to disclose information where there is a genuine risk to the safety and physical and mental wellbeing of an NPO's staff, volunteers and the communities they serve. To uphold ethical values these financial reporting requirements must not be prioritised over such considerations.

Presentation

BC35.33 ED1 feedback suggested more guidance on the balance of information provided and that there should be effective cross referencing between the financial statements and the narrative report. Additional commentary was added to underline that information should be clear and concise and presented in accordance with the principles of Section 35. The Secretariat was of the view that there was already sufficient commentary in Section 35 on the need for cross referencing to the financial statements.

BC35.34 Additional illustrations and examples of effective practice for the various requirements for narrative reporting in INPAS were requested. During its debates on narrative reporting TAG members cautioned against the risk that too many illustrative examples in the Standard might lead to boilerplate disclosures or mean that the Standard could lean more towards rules based prescriptions rather than being principles based. The Secretariat agreed to consider the promotion of illustrative examples of current and effective practices in the production of narrative reports.

Reporting of other information

- BC35.35 Climate reporting and broader sustainability reporting were highlighted by some respondents to the Consultation Paper as specific topics for inclusion in NPO narrative reporting. Inclusion of these areas as mandatory requirements was also supported by a narrative reporting focus group.
- BC35.36 However, respondents to ED1 agreed with the scope proposed, which excluded sustainability reporting from mandatory reporting requirements. A small but significant number of respondents indicated that due to the impact and increased prevalence of climate change and the environment sustainability or ESG reporting, that this should be included as a mandatory element in narrative reporting.
- BC35.37 It is recognised that this is an important area for NPOs and their users. Sustainability reporting continues to grow in importance and will continue to do so as the climate emergency is unlikely to diminish. Since ED1 was issued, the International Sustainability Standards Board (ISSB) issued two standards (S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate-related Disclosures) and the IPSASB has issued its first Sustainability Reporting Standard (IPSASB SRS) Exposure Draft (ED) 1, *Climate-related Disclosures*.
- BC35.38 At the time the guidance was finalised there were no internationally developed standards for either the public benefit sector or the public sector, either issued by the ISSB, IPSASB or the Global Reporting Initiative (GRI). Any new international standard would likely require adaption for use by NPOs.
- BC35.39 Given the broader challenges to introducing mandatory narrative reporting for NPOs, the INPAS Secretariat and the project advisory groups felt that it was premature to require sustainability reporting as a mandatory component of narrative reporting at the current time.
- BC35.40 The proposed approach to narrative reporting does, however, permit NPOs to apply existing climate reporting and sustainability reporting frameworks should they wish to do so. Use of these frameworks could be either through a specific climate and/or sustainability report or by reporting on the impacts of climate relates issues and sustainability through the financial statement commentary and performance information presented in areas such as governance, strategy, risk, and performance measures and descriptions.
- BC35.41 Respondents also raised concerns about how non-mandatory information should be disclosed in INPAS. They raised issues including comparability of information and how to report over time. As a consequence, additional guidance would be has been added that:
- the preparation of other information should if possible be based on standards prescribed elsewhere or sector practices or norms; and that where these are used, they should be disclosed;
 - the basis of preparation must be described and consistently applied;

- where information is no longer useful it should be discontinued and the reason it is no longer reported included in the narrative report.

Confidential for TAG Review only

Section 35 – Narrative reporting

Scope of Section 35

What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?

- IG35.1 Sensitive information will arise when the mandatory reporting requirements of Section 35 would compromise the safety or wellbeing of individuals working/volunteering for the NPO, or those to whom it provides goods and services, because the information is sensitive and/or could prejudice the ability of the NPO to deliver its mission.
- IG35.2 An NPO should present the narrative reporting information required by Section 35 related to those operations and activities that does not result in sensitive information. An NPO should not provide any information that would have the effect of highlighting the nature or substance of sensitive information.
- IG35.3 It is not possible to provide an exhaustive list of types of sensitive information or circumstances which could prejudice the ability of an NPO to deliver its mission. The following are therefore provided to be illustrative of the possible consequences of disclosing information that would qualify as sensitive:
- risk of personal harm, either physical or otherwise, to employees or members of their close family;
 - risk of persecution, harassment, social exclusion or displacement of service beneficiaries;
 - disruption to services, for example, by risk of damage to buildings, other assets or equipment or logistical difficulties in delivering services to service recipients;
 - release of personal information about service recipients or beneficiaries, for example, patient details.
- IG35.4 The guidance in paragraphs IG35.1 to IG35.3 should not be used by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations.
- IG35.5 When sensitive information as described in paragraph IG35.1 has not been reported an NPO should consider whether any disclosures can be made in the narrative report about the information excluded. For example, an NPO providing healthcare support may decide not to report certain information related to the services it provides to patients to avoid reporting personal or confidential information. The NPO's narrative report may include commentary to explain that personal and confidential information has been excluded and to indicate what information it has therefore been able to provide.
- IG35.6 An NPO will remain in compliance with the requirements of INPAS in circumstances where sensitive information has been excluded from the narrative report as long as the exclusion of information arises from risks to safety or wellbeing and prejudice to the NPOs mission as described in paragraph IG35.1 and IG35.3. Nothing in the Implementation Guidance on sensitive information in narrative reporting or grant

expenses will prevent an NPO from complying with its legal responsibilities or any of the professional or fiduciary responsibilities of any of its officers.

Principles

What is meant by fair and balanced?

IG35.7 Paragraph **G35.7** requires that the information presented by an NPO is fair and balanced. Narrative reporting must not be biased towards a particular portrayal of its circumstances, for example, used as a selling pitch or to provide a subjective view of performance or the financial statements that does not reflect reality. An NPO must provide an objective view of what has gone well and what has gone less well during the reporting period and the implications that this has for the future.

IG35.8 In making a judgement of whether the narrative report is fair and balanced an NPO should consider issues such as:

- a) does the narrative overstate what has been achieved?
- b) is there too much focus on successes to the exclusion of activities that were less successful?
- c) is reporting deliberately selective with items omitted in order to portray a particular view of the NPO's activities or financial position?
- d) does the narrative report put the information presented into its full context?

How should a balance of information be reported in the narrative report?

IG35.9 An NPO will need to balance the information requirements of Section 35 to produce the narrative report. The disclosure objectives of each of the categories of the mandatory requirements are summarised in **Figure IG35.1** below to assist preparers of general purpose financial reports and other stakeholders. The disclosure objectives are intended to meet the needs of the primary users of the general purpose financial report. **Figure IG35.1** also demonstrates the interrelationship between each of the requirements. Information to meet one requirement might help meet the reporting needs of another. For example, information on the amounts of unrestricted funds or funds which are not designated for specific purposes will illustrate the financial position and net assets of the NPO. This may represent a principal risk or uncertainty for the NPO that affects the achievement of performance objectives.

Figure IG35.1 Summary of the objectives of the mandatory categories in the narrative report

The narrative report must provide information to resource providers and to the public that depend on the goods and services provided by NPOs that enable them to understand:				
An overview of an NPO	Performance information	Financial objectives and strategies	An analysis of the financial statements	Risks and uncertainties
the context of the NPO, including its legal form, structure, governance arrangements, purpose, mission, vision and main activities.	- what the performance objectives of the NPO are and what it intended to achieve during the reporting period; and - what it has done in working towards those performance objectives and what it has achieved during the reporting period.	- financial objectives and strategies relating to its financial position, income and expenses, net assets and cash flows - how these financial objectives and strategies support the achievement of the NPO's performance objectives	significant changes and trends in the NPO's financial position, income and expenses, net assets and cash flows	the principal risks and uncertainties that affect the achievement of the NPO's performance objectives and its financial position, income and expenses, net assets and cash flows

How should the qualitative characteristics be applied?

- IG35.10 Faithful representation requires the NPO to provide information that is complete, neutral and free from error. Narrative reporting information should be reviewed by the NPO to ensure that it is not partial, wholly subjective and/or materially incorrect, taking into consideration the overall requirement to ensure fair and balanced reporting.
- IG35.11 An NPO should only provide information that is relevant ie information that is capable of making a difference to the decisions made by users. What is relevant will be NPO-specific and may be based on magnitude or nature of the information provided. Including only material information will enable an NPO to produce a concise narrative report that is focused on the needs of users.
- IG35.12 The information provided by the NPO should also be verifiable. An NPO should aim to provide users with assurance that the information provided is a faithful representation. This may involve providing evidence of a formal assurance process that the information has been subjected or describing how the NPO satisfies itself that the information is a faithful representation.
- IG35.13 Timeliness requires that information is available to users in time to be capable of influencing their decisions. Generally, an NPO should aim to provide the most up-to-date information that it can although this does not mean that older information is not of use to users, as it may be useful for identifying and assessing trends.
- IG35.14 An NPO should also ensure that users are able to identify and understand similarities and differences among the information that is provided in the narrative report. Although NPOs may utilise different performance measures, comparability means that users should be able to make meaningful comparisons between information that is presented.
- IG35.15 There is no set format for presenting **narrative reporting information**. The nature of the NPO and its activities will influence what is most understandable to users. As **narrative**

reporting information will be both numerical and descriptive in nature, an NPO has the option of using a variety of different formats which may include charts, graphs, tables, narrative text and infographics.

- IG35.16 In general, NPOs should ensure that information is presented in a manner that is:
- a) easy to read;
 - b) visually appealing;
 - c) focused and/or concise, concentrating on the key information;
 - d) consistent with other information presented in the general purpose financial report; and
 - e) cross-referenced to relevant external information.

Information to be included in the narrative report

What information is relevant to providing an overview of the NPO?

- IG35.17 An overview of the NPO provides users with an understanding of the purpose of the NPO, how it is governed, its activities and how its relationships with other entities and the environment in which it operates affects its performance and financial statements.
- IG35.18 To provide users with this contextual information, an NPO must address the three questions in paragraph G35.12.

Who are we? – the narrative report must consider:

- a) the legal form of the NPO – is the NPO a company, a trust, a co-operative membership organisation, registered with a regulator (eg charity)? Is it registered in more than one jurisdiction?
- b) the operational structure of the NPO – is the NPO part of a group, does it control other entities, is it part of a consortium, does it have a large number of staff, does it operate in more than one jurisdiction?
- c) the governance arrangements of the NPO – is there an executive board, non-executive oversight, trustees?

What do we exist for? – the narrative report must consider:

- a) the purpose of the NPO – what is the mission and vision of the NPO, what are its values?
- b) the key objectives of the NPO – what are the key things that the NPO is looking to do?
- c) who is the NPO seeking to benefit?
- d) the outcomes and impact the NPO is seeking to achieve – what changes is the NPO looking to make?

What do we do? – the narrative report must consider:

- a) the environment in which the NPO operates – what jurisdiction(s) or communities does it operate in, what is the legal, economic and political situation in which it operates?

- b) the main activities of the NPO – does it deliver goods and services itself directly to the public, does it make grants to individuals or organisations, does it lobby governments or organisations on behalf of others?
- c) what goods and services does the NPO provide – what are the specific goods and services that it delivers?
- d) how the NPO work with other entities – is it reliant on donors to provide funding, does it deliver services to the public with another organisation?

IG35.19 The information needed to provide this overview should be readily available to most NPOs from documents like the founding constitution, grant proposals and reports to goods recipients and service users.

IG35.20 Paragraph G35.12 specifies that the narrative report must provide a description of the legal form of the NPO, how it is structured and what governance arrangements apply to it. This might include:

- information on how decisions are taken by the NPO, including the structure of the arrangements to facilitate this, for example, governing body arrangements, committees and/or management structures;
- key responsibilities for those structures, relevant officers or personnel;
- how performance is measured, managed and monitored; and
- how compliance with regulatory requirements is ensured.

This information should provide an overview of the governance arrangements so that the users of the general purpose financial report understand the arrangements to ensure accountability and enable effective decision-making.

Performance reporting

How should performance measures and descriptions be selected?

IG35.21 Reporting should be focused on the objectives that management has set to monitor the activities or performance of the NPO. Performance objectives should not be created purely for the purpose of the narrative report.

IG35.22 The performance measures and descriptions that an NPO selects will depend on its performance objectives, the nature of its activities and whether it should focus on inputs, outputs, outcomes and/or impact.

IG35.23 An NPO may have a mix of input, output and outcome measures depending on their activities when making decisions on selecting performance measures and descriptions. Some may already be used in reporting to donors, reporting to management or those providing oversight of the NPO and those to whom the NPO is providing goods and services, as well as other stakeholders.

Inputs – this will be relevant where performance is best measured by the quantity of resources used to deliver an NPO's mission, for example, the number of employees, volunteers, or amount of donations.

Outputs – this will be relevant where performance is best measured by what an NPO produces in terms of good or services delivered, for example, the number of free meals provided, trees planted, vaccinations given.

Outcomes – this will be relevant where performance is best measured by the impact that an NPO is having on those that it intends to benefit, for example, longevity, air quality, literacy.

- IG35.24 Performance information required by paragraphs G35.13–G35.15 gives an NPO the opportunity to provide users with an understanding of why the NPO exists, what it intends to achieve in the near and longer term, and how intends to accomplish this, including what it has done in the reporting period to achieve its objectives. Performance information is best supported by performance measures and descriptions (see paragraph IG35.24).
- IG35.25 Performance objectives should be linked to the discussion of the missional objectives or purposes of the NPO included within the overview. They will be derived from these purposes and should indicate what the NPO intends to achieve in both the near and the longer term and how it will accomplish this.
- IG35.26 Many NPOs will already provide performance information outside of their general purpose financial report to groups such as donors. While NPOs may be able to draw on the information that is contained in such reports, they should ensure that the information presented is not too detailed and that it complies with the high-level reporting principles.
- IG35.27 Reporting performance information on the services or activities of an NPO might usefully include actual to budget comparisons, particularly where users take decisions on resource allocation. It might also include information on efficiency, including performance ratios and/or an examination of direct and indirect costs, if these are relevant performance measures for the NPO.
- IG35.28 Reports on performance may include:
- an overview of the funds;
 - their significance to the delivery of performance objectives and the activities of the NPO;
 - the nature of any material restrictions on the funds and the effects of those restrictions on the activities of the NPO;
 - how resources within those funds have changed during the reporting period, including restricted funds, and the major movements in the year;
 - the policy for holding unrestricted funds, which can be used to set out the position for financial sustainability.
- This information should reflect how funds held by the NPO impact on performance, its activities and its financial position. It should not merely replicate the disclosures included in the financial statements.
- IG35.29 Reporting performance may cover more than one reporting period. Care should be taken to ensure that any performance measures that cover more than one reporting period are faithfully representative and consistently report the performance for each period and,

when necessary, provide an overview of the service performance over a number of reporting periods.

- IG35.30 Performance information may also consider the anticipated broader or longer-term effects of a projects or organisation's outputs, outcomes and activities. This is more difficult to measure but may take the form of programme evaluations, case studies or quantitative evidence.

Financial strategies and objectives

What should be included in financial objectives and strategies?

- IG35.31 Paragraphs G35.16–G35.17 require an NPO to provide information on financial objectives and strategies and demonstrate how these relate to its performance objectives. Given that NPOs exist to primarily deliver a benefit to the public rather than to generate financial returns for investors, financial objectives and strategies are likely to be derived from the NPO's performance objectives.
- IG35.32 For example, an NPO may have a performance objective of delivering a certain volume of services over a financial period and have volatile incoming resources. To ensure that the NPO has sufficient resources to deliver this volume of services, it may have a reserves policy that requires it to hold resources equivalent to six months of expenses in unrestricted funds. To achieve this the NPO may have a strategy of increasing both the amount and percentage of unrestricted donations it receives compared to those that can only be spent on a specific set of activities. The NPO may therefore consider it useful to set out an overview of the strategy intended to achieve this financial objective, including, in this case, the reserves policy.

Analysis of the NPO's financial statements

What should the discussion and the financial statement analysis focus on?

- IG35.33 Financial statement commentary required by paragraphs G35.18–G35.20 gives an NPO the opportunity to report on and analyse the financial statements. The focus of the NPO's analysis of the financial statements should be to provide a better understanding of the financial position, income and expenses and cash flows of the NPO.
- IG35.34 The narrative reporting information on the financial statements may focus on the significant items, transactions and events that are presented in the NPO's financial statements and the factors that have influenced them. This provides context to the financial statements, thus ensuring that they are useful for accountability and decision-making purposes.
- IG35.35 The focus of the analysis of financial statements should be on significant changes and trends, and the achievement of the NPO's performance objectives, both in this period and the future. An explanation should be provided of the impact that these changes and trends have on the NPO's:

- financial position;
- income and expenses;
- net assets; and
- cash flows.

The narrative report might include, for example, how a significant amount of income from holding financial assets has enabled an NPO to increase its unrestricted cash reserves and how this will permit it to increase the number of members of the public it can support in the next financial year.

Principal risks and uncertainties

How should the principal risks and uncertainties be described?

IG35.36 Principal risks and uncertainties are those that could significantly disrupt the ability of the NPO to achieve its performance objectives and its financial objectives and strategies. This will include but is not limited to:

- how the NPO works with others to deliver its main activities;
- changes to the political environment;
- changes to the legal or regulatory environment;
- changes to the physical environment;
- changes to the economic environment;
- reliance on volunteers;
- reliance on certain donors;
- capacity and capability of NPO resources; and
- the NPO's ability to generate and manage financial resources, or its operations and governance.

In describing the key risks and uncertainties any changes from previous periods should be disclosed, and users should also be given information on how the NPO manages its risks and uncertainties.

IG35.37 For example, a key risk could be reliance on donations from the public to fund services, which have historically fallen significantly during periods of economic recession. An economic recession might mean the NPO is unable to generate the required level of donations and lead to a reduction in the services it provides. This would impact both its financial and performance objectives. Mitigations to manage the impact of this risk could include levels of reserves or a longer-term plan to diversify income sources.

IG35.38 A key risk for an NPO may be the risk of harm to the NPO's service recipients and staff, which might exist due to the environments in which it operates, or the nature of the activities undertaken. Any failures could fundamentally risk an NPO's ability to deliver its objectives and strategies and undermine confidence in its ability to deliver. The narrative report might also disclose mitigations to manage the incidence and impact of this risk such as safeguarding arrangements, systems and protocols or health and safety procedures which operate throughout an NPO's activities.

Presentation

Are there benefits of linking to other reported information?

IG35.39 To meet the reporting requirements in Section 35 it may be useful to cross refer to information in other reports produced by the NPO, for example, reports on performance, impact or governance reports (see paragraphs G35.25- G35.26). Including information by cross reference may be useful to avoid duplication or to reduce the amounts of standing information. Cross references to other reports can be used to enable clear and concise reporting. The cross references allow the key messages to be understood by users by ensuring that these messages are not obscured by too much detail. Paragraph G35.26 sets out the information requirements where such cross references are used in the narrative report. To ensure these information requirements are achieved, where information is included by cross reference it must be:

- a) consistent with the mandatory reporting requirements of Section 35;
- b) available whenever the narrative report is available, on the same terms and with a clear cross reference in the narrative report, with precise information on where other reported information can be located.

How should judgements be made on the selection, measurement and presentation of narrative information?

IG35.40 Paragraph G35.34 requires, an NPO to disclose the judgements that are the most relevant to users' understanding of the narrative information in its selection, measurement and presentation. An NPO should select only the information that it considers is most significant to the users understanding of the information provided. This might include, for example, a decision by an NPO to disclose performance information by region or activity, or why an NPO utilises a certain financial ratio to determine if it has sufficient funds to continue to provide services.

What is an effective means of presenting narrative information?

IG35.41 The narrative report should be written using clear, concise and simple language. sector-specific jargon should be avoided where possible. Where the use of technical terms is necessary to communicate clearly, prior knowledge should not be assumed, and terms should be defined for users and used consistently throughout the narrative report.

IG35.42 In addition to the use of clear and simple language, how information is presented can significantly affect understandability. The nature of the information will determine the most appropriate method of presentation, but tabular, graphical or pictorial methods can be effective ways of explaining concepts to users and highlighting key information. They should, however, serve a clear purpose, be accessible for all users, and be supported by appropriate narrative text.

IG35.43 An NPO may also wish to consider the use of case studies and feedback from those that provide financial and other support to it and those that benefit from the goods and services they provide. Case studies and feedback can enable an NPO to provide more in-depth information about individual activities and personal insights that will enable users to more readily engage with the report. If an NPO uses case study information in its narrative report the NPO will need to consider whether such case study information meets the requirements of paragraph G35.7 for fair and balanced information.

Comparative information and consistency of reporting

What should the approach be for the consistency of reporting of information in the narrative report?

IG35.44 Paragraph **G35.31** requires consistency of reporting of narrative information. This is because users' understanding of narrative information is improved when its content and presentation is consistent over time. Consistency of reporting can be supported by careful consideration about what users require, particularly when first preparing narrative information, including financial and other performance information. Consistency of reporting is also supported by establishing well documented processes to develop easily replicated information in subsequent reporting periods.