INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

ICPAU CONSULTS ON IFR4NPO PROJECT - PART 1

SURVEY FEEDBACK REPORT

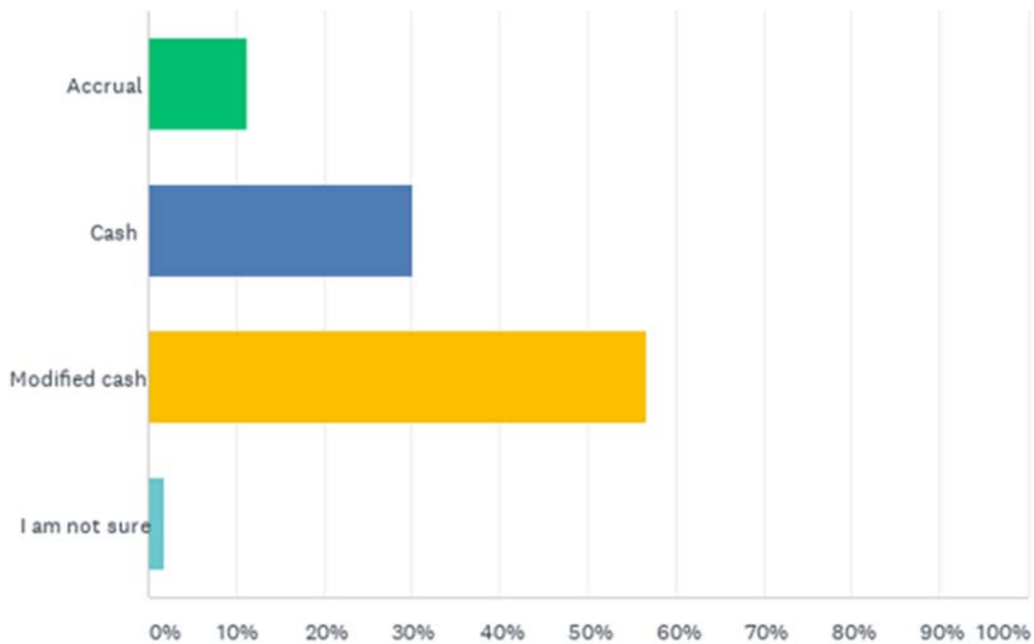
JUNE 2021

1.0 INTRODUCTION

ICPAU conducted an electronic survey to obtain views of its Members on the IFR4NPO Project. A total number of 53 respondents participated in the survey and below is a summary of the responses obtained.

2.0 SURVEY QUESTIONS AND RESPONSES

2.1 In your opinion, which accounting basis is commonly used by NPOs in Uganda?



As indicated above, the most commonly used accounting basis by NPOs in Uganda is Modified Cash.

However, respondents provided the following additional comments:

i. Most use cash basis especially local NGOs and CBOs, however there is also a significant number that use modified cash

ii. Many organisations are budget sensitive and expenditures should be processed with cash at hand. There is relatively very low need for accrual basis of accounting.
iii. Largely cash with minimal accrual at year or project ends to capture mostly commitments.
iv. The cash accounting basis is commonly used with many organisation starting to adopt the modified cash basis. This is mainly so because of the nature of the sector where donors require the NPO to account for what has actually been spent.
v. The problem is disclosing the balancing cash allocated to different donors and associated restrictions
vi. NPOs mostly use a mixture of cash basis and accrual basis
vii. Modified Cash basis is the way to go.
viii. The usual modification only comes at the end of the organization's financial year and grant end period when expenses pending for the period or grant are accrued.
ix. All expenses are expensed including Assets and list this assets is maintained
x. NPOs pick elements from accrual and cash basis accounting
xi. But some cases call for modified cash

2.2 Which financial reporting standards are used by NPOs in Uganda?

ANSWER CHOICES	RESPONSES	
IFRS	9.62%	5
IFRS for SMEs	9.62%	5
IPSAS	5.77%	3
National GAAP	5.77%	3
NPO specific standards/guidance based on IFRS	9.62%	5
NPO specific standards/guidance based on IFRS for SMEs	11.54%	6
NPO specific standards/guidance based on IPSAS	7.69%	4
NPO specific standards/guidance based on National GAAP	17.31%	9
Funder requirements only	23.08%	12
TOTAL		52

Most NPOs in Uganda use Funder requirements only. This is closely followed by NPO Specific Standards or Guidance based on National GAAP. Respondents provided the following additional comments:

i. Funder requirements are used for accountability purposes.
ii. IFRS, with funder requirements
iii. Many a time it is a mix of national GAAP and funder reporting requirements. Some donors are flexible to allow NPO maintain their reporting standard (mostly national GAAP) as long as it agrees with their minimum requirements. Some will be strict on NPO using their reporting standards
iv. IFRS for SMEs, as per the NGO board recommendations
v. NPO specific standards/guidance based on IPSAS – these seem to serve the purpose properly
vi. NPO specific standards/guidance based on National GAAP - accompanied by funders requirements
vii. Funder requirements only - This is always used together with National GAAP.

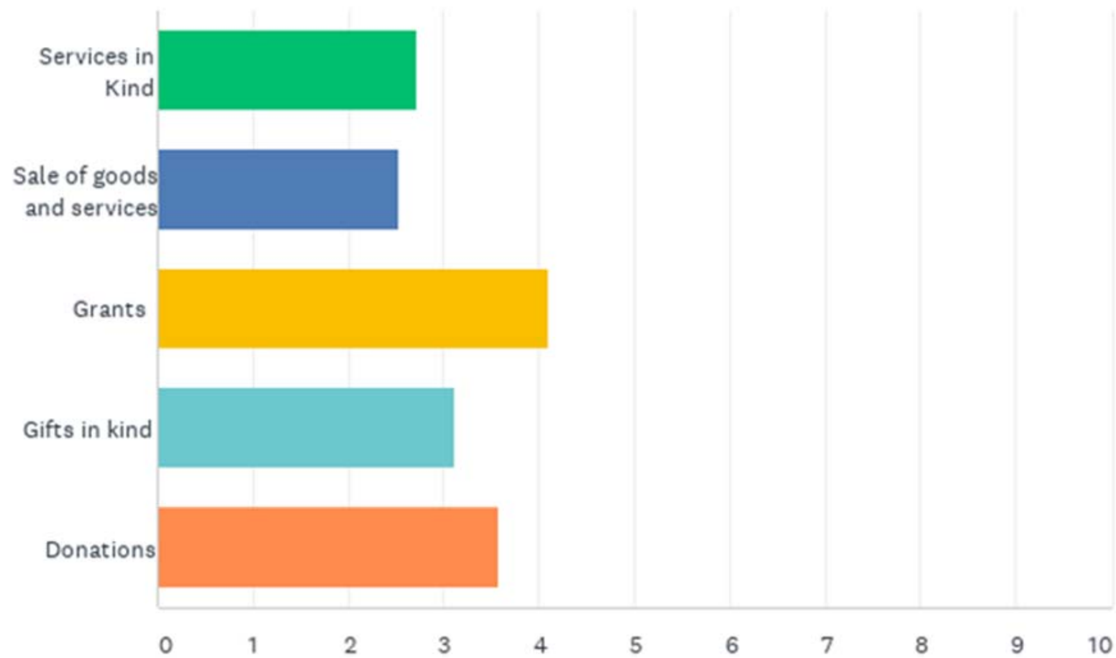
2.3 Which International Classification of Non-Profit Organisations (ICNPO) group best describes your organisation and its activities?

ANSWER CHOICES	RESPONSES	
Culture and recreation	0.00%	0
Education and research	7.55%	4
Health	20.75%	11
Social services	18.87%	10
Environment	3.77%	2
Development and housing	3.77%	2
Law, advocacy and politics	3.77%	2
Philanthropic intermediaries and voluntarism promotion	1.89%	1
International	9.43%	5
Religion	3.77%	2
Business and professional associations, unions	7.55%	4
Not applicable	18.87%	10
TOTAL		53

The top two highly ranked ICNPO groups were: Health; and Social Services in that order. Respondents who selected health also proposed the following sub-classifications:

i. Humanitarian, education, protection, livelihood
ii. Health and law, advocacy

2.4 Please click to rank the revenue sources of your NPO in order of importance, items will be ranked according to the order clicked.



The biggest revenue source for NPOs in Uganda is Grants, followed by donations, Gifts in Kind, Services in kind and Sale of goods and services – in that order.

2.5 In the IFR4NPO Consultation Paper, a broad characteristics approach has been developed to describe the types of organisations that are likely to benefit the most from the IFR4NPO Guidance. They are organisations that:

i) deliver services for public benefit and/or

ii) direct any profits/surpluses for public benefit and/or

iii) may have significant voluntary funding and grant income and/or

iv) Hold and use assets for social purposes.

By adopting this broad description, the project in delivering its objectives can focus on proposals that best meet the needs of the organisations with some or all of these characteristics. Do you agree with the broad characteristics proposed?

ANSWER CHOICES	RESPONSES	
Yes, I agree.	100.00%	52
TOTAL		52

2.6 Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability?

ANSWER CHOICES	RESPONSES	
Yes, I agree.	100.00%	50
TOTAL		50

2.7 Do you agree that external stakeholders require information on the NPO's achievement of objectives, economy and efficiency, compliance with restrictions and regulations, and longer term financial health, for accountability and decision-making purposes?

ANSWER CHOICES	RESPONSES	
Yes, I agree.	100.00%	50
TOTAL		50

2.8 Differences in reporting requirements at a jurisdictional-level mean that NPOs have to report using different standards and formats by jurisdiction. This has been a factor in donors imposing their own financial reporting requirements on NPOs. This has led to a significant additional reporting burden for NPOs as they are required to produce different financial reports. Do you agree with the above statement?

ANSWER CHOICES	RESPONSES	
Yes, I agree.	100.00%	52
TOTAL		52

2.9 Accrual-based financial information is best able to meet the financial information needs of a wide range of NPO stakeholders. It provides a more comprehensive view of an entity's financial position and performance than either cash-based or modified cash-based information. It improves the information that can be used to hold management to account and make funding and other decisions. What, if any, do you see as the main challenges with IFR4NPO Guidance that is accrual-based? Please give clear reasoning to support your response.

This was an open ended question and below is a summary of responses obtained:

- Accrual considers depreciation which is subjective

- Some funding may be for a short time like one year, so accrual based financial information may not be possible
- Recognition of expenses and income as used and earned before it happens may be difficult.
- Some of the staff in the NPOs holding positions of accountants or finance managers do not have the right tools or equipment (such as laptops etc.) and also lack the capacity and skills to apply accruals based accounting. They often use the auditors or outsource the services. If adopted, management will have to ensure they have competent staff in those positions that can apply these guidelines appropriately.
- The main challenge would be to harmonize the funder reporting requirements.
- Accrual basis of presenting financial information does not give a fair and true view of the objectives and financial operation of NPOs. NPOS are based on budgets and assured grants thus, activities will only be programmed once funds are available. There is no strong reason to apply accrual basis of accounting
- The cash life cycle of many NPOs might find it a bit difficult to cope with accrual-based financial information/reporting.
- Many funders will want that you expense only those transactions for which payment has been made. Relatedly, many funders prefer you report income that has been received.
- Improper Cut off procedures especially for funds that come in too late than projected due to both internal and external factors. E.g. when a donor changes their mind to donate way less than budgeted for (internal), calamities that may hit the economy hence postponing receipt of funds (external) etc
- Incomplete records. Most NPO do not keep all records required to present fair reports, therefore making financial reports state figures that are not well explained.
- Many NPOs many not have systems to support accrual accounting
- Sometimes given the nature of funding it does guarantee receipt and therefore can't meet the recognition criteria a d accordingly the use cash basing of accounting as grants and donation are optional
- Different donors sign different MOU with their implementing partners (NGO)as a result modified cash basis of accounting becomes more flexible to cater for TOR requirements agreed upon, unlike accruals and cash accounting bases, this is especially at implementing and reporting levels.
- The main challenge of this basis of accounting is the reliability of accounting estimates as different organizations make their accounting estimates depending on their jurisdiction economic conditions
- The challenge is mainly on the revenue side. NPOs mainly depend on donors and cannot recognize revenue unless received even if they are sure that the donor will release funding.
- Any challenges that may arise could be on income recognition. Typically NGOs will recognise income when it is received rather than based on the agreed contractual

terms for a particular period. However, the 5 step model for revenue recognition may be relevant because it aligns performance obligations to recognition of income that is usually imbedded in donor obligations.

- In Uganda, many if not most NPO and NGO have not met the transparency bar and most have had corruption cases (misuse, misappropriation and the like). Where as in profit making organisations the use of accrual basis of accounting is used to report the actual position of the organisation, this might be used by opportunists in the NPO organisations to misappropriate or even embezzle donor funds. Many NPOs in Uganda have accountability issues and that is why in my opinion the cash basis of accounting has worked well for donors to date
- Donor specific reporting requirements may hinder full adoption of accrual based financial reporting as NPOs are required to fully utilize the funds as per the approved budgets, so we do not anticipate payables in any case as utilized funds may be required to be transferred back to the donor
- The challenge is that most Non-profit organizations depend on donor funds based on approved proposals which takes long. So activities planned in a specified period are affected by delays.
- The practicability of certain IFRS under the NPO setting becomes so academic
- The use of accruals calls for recognition of all pledges from donors as income, it would hold true even if the entity had not yet received all the money. This creates a challenge of having to make adjustments in the records later, if the donor fails to fulfil pledges during the year.
- Accruing income from donor is not realistic. Even with a signed agreement they sometimes justify not disbursing some funds.
- Treatment of PPE. Accrual based requires that we depreciate, yet when a donor provides funds for it purchase, it ends on purchase. Yet again accrual requires that we depreciate, now the NGO is left with the burden of annual depreciation expense in its books, yet according to the donor that chapter was closed
- Most of the Non-current assets are donations and ascertaining the value and cost is a bit of a challenge
- Donors want to see the amount received and how it's spent and any remaining balance which accrual based accounting cannot reflect appropriately.
- None
- Accrual accounting will expose NPO to further disclosure of funding associated with accrued items.
- Books of accounts shall be more comparable
- Actual basis will give details of financial position such as accounts receivables and accounts payables, the details of noncurrent assets, the details of current and noncurrent payables. In the financial performance, the accrued incomes and expenses will be reported on. So accrual basis will enhance decision making of management.

- Accrual based reporting is more expensive to implement and does not provide the desirable benefit.
- Most NPO`s don't hire and recruit qualified accountants who are able to facilitate Financial Reporting
- Agreements made by donors to NPOs are very biased to the advantage of the donors. The donor has capacity to withdraw funding (income to NPO) at any discomfort broadly described as "unavailability of funds". This means that NPOs may recognize income as earned but the donor can withdraw this offer at any time.
- Accountability is required as and when the cash is spent before that, it's taken as committed cash.
- The fact that funding is specific to purpose, accrual accounting may encourage accumulation of unnecessary liabilities and yet some of this organisations life span is short meaning accruing may give a misleading picture
- I do not see any as the main challenge. Indeed NPO should adopt the accrual based financial information.
- This is not a major challenge for big NPOs but for the smaller ones who cannot afford good accounting system/software and are also unable to hire qualified accountants
- Mindset of the NPOs, the donor-imposed standards for NPOs, funding modalities for NPOs which are cash based
- NPOs tend to rely on donations or grants and may not operate if the funding are not yet released by the funders. As a result the project may halt and accrual basis many not function. Additionally, accrual basis doesn't consider cash transaction that are realised when funds are released.
- Conflict with some donors where cash accounting and reporting is a requirement for determination of partner budget burn rate and thus follow on funding
- No
- In most cases, NPOs operate budgets that are based on assumptions which at the end of the financial period, may vary leaving so much cash unutilized. This might encourage fraud. It might be better to use cash so that unutilized funds can be reallocated or included in the following period's budget
- NGOs budget based on grants won and activities are implemented based in release of funds by the funders. This therefore makes accrual basis of Accounting hard especially for small NGOs who do not have reserves

2.10 What, if any, do you see as the main challenges with Guidance that includes non-financial information reporting? Please give clear reasoning to support your response.

- The assets value may be over or under estimated
- Non-financial information depends on the environment or location and therefore cannot have a uniform format
- Non-financial information gives a holistic picture

- Developing appropriate key performance indicators
- It is a difficult for most entities to keep a sufficient and accurate record of non-financial information. Measuring the impact of changes in non-financial aspects is also difficult in many entities.
- A knowledge gap of cultures. Donors sometimes fail to understand each other's ideas, customs and social behavior of a particular society in which the fund applications occurs and vice versa.
- Poor internal control systems that makes management have narrative reports that does not march the financial reports.
- It's subjective. Many organizations would have varied view or perspective
- The report might appear bulk to read by various stakeholders since the don't have time read and comprehend the report
- Since different Projects even, in the same NGO have different reporting templates and formats, sometimes this creates unnecessary duplication of work, time consuming, lack of uniform also comparisons are not easy
- I absolutely agree that NPOs should include non-financial information in their reporting and don't see any challenges.
- The main challenge is the accuracy of the data presented.
- Inadequate training avenues
- Different donor/funder reporting requirements
- Some information may be difficult to quantify e.g. managerial competency of staff, like skills, attitudes and behavioral competencies of staff
- Ambiguity and distorts making comparisons
- The information may not be readily available
- NPOs engaged in numerous and varied activities. Deciding on which non-financial information should or should be reported is difficult if not impossible to agree on.
- Confidentiality demands of the NPO stakeholders
- No. reporting should include non-financial data for proper understanding of NPO operations
- This is a great stride for NGOs because it gives additional information to the stakeholders

2.11 International financial reporting frameworks are proposed as the basis of the IFR4NPO Guidance to harness their respective hierarchies, structures and legitimacies and provide credibility to the Guidance produced. Do you agree with this proposed approach?

ANSWER CHOICES	RESPONSES	
Yes, I agree.	100.00%	49
TOTAL		49

2.12 There are proposals to use the IFRS for SMEs standard as the foundation framework and to draw on full IFRS Standards, IPSAS and jurisdictional-level standards to develop the IFR4NPO Guidance. What do you see as the main challenges, if any, with the proposed model and the use of IFRS for SMEs as the foundational framework? Please give clear reasoning to support your response.

This was an open ended question and below is a summary of responses:

- SMEs strict adherence may be cumbersome as their maturity of data capture is still low
- I agree with the model of using IFRS for SMEs as this will ease the understanding (it is much more simplified) and application.
- The framework that gives the basis for use of IFRSs will have to be altered significantly
- NPO's are quite unique. The use of these existing standards, that are heavily skewed towards for-profit entities will still leave some problems for NPOs
- Inadequate accounting training to implement IFRS for SMEs. If this is still a challenge for most of the SMEs till date, how about the newcomers, NGOs?
- The two envisioned different set of values. It would be best to have specific NPO considered frameworks
- The challenge are various legal regimes and the level developing in accounting profession must have an impact on the proposed model
- SMEs are not similar to NGOs. What is the basis of this proposal? There is a need to carry out a comprehensive baseline survey on NGO/NPO for Financial and Non-Financial reporting before recommending a model since NGOs are different in Nature and DONOR Interests and requirements are also different.
- I believe that using the above as the foundation framework is the best option but consideration of the roles and objectives of these NPOs must be key in the development of the IFR4NPO.
- IFRS for SME is a very basic standard yet some of the bigger nonprofits have complex structures and it may be useful for a more robust standard than the IFRS for SME.
- The Donor-specific reporting requirements will still be a hindrance to full adoption
- I would perceive the shift as a challenge but rather as an opportunity to harmonize the reporting for NPO with those of different stakeholders especially the donors rather than the private investors
- IFRS for SMEs has not been popularised but also there are NPOs which do not qualify to use IFRS for SME.
- It's a good proposal
- Some SME lack accounting education and training which is necessary in implementing IFRS for small and medium enterprises
- Comparability issues

- This may be limiting to what can be achieved, if possible fresh standards should be developed that are simple and easy for the sector and funders to follow
- The challenge I see is the adoption of the IFRS for SMEs standard as the foundation framework. Some NPO as far bigger than the SMEs to the extent that they can use full IFRS if proper tracking is done the jurisdiction authority.
- NPOs are at different levels of development and sophistication and some may work in multiple jurisdictions. The HQs of these "multinational" NPO may require their affiliates to following a particular standard, which may different from the jurisdictional -level standards where the affiliates operates. The affiliates may be forced to report using multiple standards to the different audiences.
- Harmonising locally based guidance and the international standards
- SMEs will require training in IFRSs but some may view this as an added cost to their operations
- Reporting that is not based on local professional body
- To me IPSAS would be applicable here given the funding based operations rather than IFRS for SMEs