

IFRNPO Guidance

January 2021

Response Document

PART 2: NPO-SPECIFIC FINANCIAL REPORTING ISSUES

Instructions for completion

IFR4NPO has published this document for respondents to use for submitting their comments.

This document presents all of the questions in **Part 2** of the Consultation Paper with spaces for responses.

Respondents are encouraged to complete this document electronically but are not required to use this document. They may also respond using their own comment letter format or the online survey available at: <https://www.ifr4npo.org/cp-survey/>

Comments on **Part 2** are requested by **24 September 2021**

Information requested from all respondents

Name¹:

CPA Derick Nkajja

Email address:

standards@icpau.co.ug

Description of your role if responding as an individual:

-

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

The Institute of Certified Public Accountants of Uganda (ICPAU) is the regulator of the Accountancy Profession in Uganda, as mandated under the Accountant's Act, 2013.

Jurisdiction(s) to which the feedback relates:

Uganda

Accounting basis of NPO financial reports in the jurisdiction in which you mainly work:

(iii) Modified cash

Please refer to our comments on Part 1 of the Consultation Paper available at <https://www.icpau.co.ug/resources/icpaus-comment-letter-ifr4npo-consultation-paper-part-1>

Financial reporting standard use by NPOs in the jurisdiction in which you mainly work

(ix) Funder requirements only

Please refer to our comments on Part 1 of the Consultation Paper available at <https://www.icpau.co.ug/resources/icpaus-comment-letter-ifr4npo-consultation-paper-part-1>

¹ Name of person providing the response and whether this is in an individual capacity or on behalf of an organisation.

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.

Agree

Disagree

This document has been designed purely to enable feedback to the IFR4NPO consultation. The responses will be used to shape the development of the IFR4NPO Guidance and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses to the consultation will be public, but personal contact information will not be disclosed. Participation in this consultation is undertaken on an entirely voluntary basis. Personal information will only be held for the purposes of the project. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at IFR4NPO@cipfa.org

Information requested only if the organisation on behalf of which you are responding is an NPO

Which International Classification of Non-Profit Organisation (ICNPO) group best describes your organisation and activities?²

11. Business and professional associations, unions - Organizations promoting, regulating and safeguarding business, professional and labor interests.

Please refer to our comments on Part 1 of the Consultation Paper available at <https://www.icpau.co.ug/resources/icpaus-comment-letter-ifr4npo-consultation-paper-part-1>

Rank revenue sources of your NPO in order of importance (optional)

	1	2	3	4	5	6
(i) Grants	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) Donations	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) Sale of goods and services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(iv) Gifts in kind	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) Services in kind	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vi) Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please refer to our comments on Part 1 of the Consultation Paper available at <https://www.icpau.co.ug/resources/icpaus-comment-letter-ifr4npo-consultation-paper-part-1>

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

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

Please provide any further information on revenue in this box

² http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP19_1996.pdf

Specific Matters for Comment (SMC)

Introduction

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

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

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

Comments are welcome on any or all of the parts in the Consultation Paper. Please note:

- There is no requirement to respond to all issues
- You may respond to all of the questions raised in the Consultation Paper or may choose to respond only about certain elements
- There is no minimum number of questions that can be addressed in a response. But, the greater the number of responses received, the richer the feedback for the project team to consider.

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Overview – Selection of NPO-specific issues

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

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

Yes, the list is complete.

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

Yes, we agree with the criteria used. We acknowledge that there may be resource constraints on the project. We therefore support the prioritisation of issues based on their consequence, prevalence, feasibility and demand.

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

Yes, we agree with the topics prioritised for the Consultation Paper based on their potential to provide the best outcome across all four criteria. We invite the Project team to also consider inclusion of the related party transactions and these may be relevant especially under the category of “The Reporting Entity.”

Issue 1 – Reporting entity and control (including branches)

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

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

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

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

Yes, ICPAU agrees with the description of issue 1. We agree that there is need to define control, and what constitutes a branch. We believe that there is need for clarity on the status of the financial statements of a branch that is not a separate legal entity. This would mirror the existing guidance provided in IFRS, IFRS for SMEs and IPSAS.

However, some NPOs are found to be operating in very different contexts as compared to their branches. An example is when NPOs open branches in various countries in the world with different emerging issues. The branches would be seen to have independent governance structures and systems and in the longrun, many NPOs would not have control over the branches. We believe that this should also be considered in the description of issue 1.

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

Yes, the list of alternative treatments to be considered for issue 1 is exhaustive as it covers existing guidance provided in IFRS, IFRS for SMEs, IPSAS as well as existing national guidance.

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

Yes, we agree.

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

ICPAU favours Alternative 2 because it allows for a customised approach based on the stated pragmatic methods rather than the use of a principles based approach. Moreover, this approach would be easier and cheaper to apply without requiring significant amounts of judgement.

Issue 2 – NPOs acting on behalf of other entities

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

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

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

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

Yes, we agree.

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

Yes the list is exhaustive.

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

Yes, we agree.

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

Since the IFRS for SMEs standard is more consistent with the guidance development model, ICPAU favours Alternative 2 which involves following the IFRS for SMEs Standard with decisions on agent and principal made on an exposure to risks and rewards.

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

Challenge will be how to define what is relevant for disclosure based on the fact that NPOs at times have different stakeholders who also come with varying interests and requirements.

Issue 3 – Non-exchange revenue

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

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

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

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

ICPAU supports alternative 4 because, today, some NPOs already implement IPSAS 23 in recognition of revenue from non exchange transactions. Having a modified principle for NPOs with additional guidance will be easy to implement.

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

N/A

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

Any approach that requires NPOs to recognise unspent grant income, and show it as a 'surplus' may have grave consequences for NPOs especially in jurisdictions where tax exemption is rarely granted.

Issue 4 – Grant expenses

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

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

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

ICPAU favours Alternative 2 which requires following either IFRS Standards, the IFRS for SMEs Standard or IPSAS with inclusion of additional guidance on recognition, measurement incorporating the performance obligation approaches proposed in ED72 by IPSASB, when IPSAS is not used as the base.

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

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

This topic is seeking to address matters related to:

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

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

Yes, I agree.

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

Yes, I agree.

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

Yes, I agree.

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

ICPAU favors Alternative 4 which proposes to require certain classes of assets where they are used for their service potential to be measured using the revaluation model at a 'value in use' measurement basis and for the remaining classes of assets (plant and equipment) allow a rebuttable presumption that assets measured at historical cost is a proxy for the revalued asset.

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

Yes, we agree.

Issue 6 – Inventory held for use or distribution

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

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

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

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

No we do not agree. In addition to the description, consideration should be put on inventory that is first used then later distributed/donated. Accordingly, we believe the description should be expanded to include this.

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

Yes, we agree. However, we wish to highlight that not all inventory is of low value.

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

Yes, we agree.

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

ICPAU favours Alternative 3 which proposes to require inventory held for use or distribution to be measured at cost, adjusted when applicable for any loss of service potential, with disclosure of the accounting policy and impact on service delivery.

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

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

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

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

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

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

ICPAU favours Alternative 3 which proposes the use IFRS for SMEs Standard and a requirement for NPOs to use fund accounting in the preparation of the financial statements, disclosure of reserves policy and in addition prepare supplementary fund/project statements for material funds/projects.

However, there is a challenge in disclosure of reserve policy which at times has in many cases brought conflicting reactions amongst stakeholders. Some Donors have been seen investigating the growths in organisational reserves as they assume its a lucrative way of swindling their money. Also, we believe that the preparation of a supplementary statements should be optional. Guidance on form and content would provide consistency, while each organisation could balance the cost / benefit of doing so in their own context.

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

Whereas ‘statement of financial performance’ is an apt description, we believe the term “statement of Income and expenditure” is more clear and better understood by all stakeholders including those with a non finance background. We also propose the alternative terms such as “statement of financial activities” or “statement of comprehensive income”.

Issue 8 – Classification of expenses – function or nature?

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

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

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

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

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

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

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

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

(iv) whether the alternatives permit accountability.

ICPAU favours Alternative 1 which allows analysis by function or nature of expense. We believe that this option provides the best information about key components of expenses or drivers of performance/activities.

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

Yes, we believe so.

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

No, we do not think so.

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

None

Issue 9 – Fundraising costs

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

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

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

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

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

ICPAU favours Alternative 1 i.e. Follow existing international guidance on the recognition, presentation and disclosure of expenses with NPOs deciding whether the resulting information is reliable and relevant to its users of the financial statements. We believe these are sufficient.

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

Yes, we agree.

Issue 10 – Narrative reporting

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

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

- What should the narrative/non-financial reporting requirements be for NPOs?

- Should ratios be required for narrative reporting? If they are included, how should costs be classified between support costs and those attributable to operational delivery?

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

Yes, we agree.

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

Yes, we agree.

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

Yes, we agree.

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

ICPAU favours Alternative 3: Apply integrated reporting, following the IIRC Framework, tailored as appropriate for reporting in the NPO context. We believe that this will provide more detailed information suiting several stakeholders.

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

No. NPOs largely depend on donors who have different reporting requirements and recommendations. Therefore, setting a framework and principles may become difficult for donors to adopt.