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## **THEME**

# **IFRS FOR NPOs WORKSHOP**

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### **TOPICS**

- **The role of reporting and accountability**
  - **Globalisation of financial reporting in the not-for-profit sector**
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# TOPICS

- ❑ **The role of reporting and accountability**
- ❑ **Globalisation of financial reporting in the not-for-profit sector**

# **The Role of Reporting and Accountability (NPOs)**

# Role of Reporting and Accountability

**To give a spoken or written account of something that one has observed, heard, done, or investigated**

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**Reporting by NPOs differ from country to country due to the lack of uniform financial reporting standards for NPOs.**

**There are however certain fundamental financial reporting principles that every NPO financial report MUST observe in any country.**

## **Role of Reporting and Accountability**

**NPOs reliance on funding and donations brings the need to measure performance and report the same to stakeholders in ensuring accountability.**

# Role of Reporting and Accountability

Who	Objective
Management	<ul style="list-style-type: none"><li>➤ Funds utilization</li><li>➤ Adherence to regulations</li><li>➤ NPO going concern</li></ul>
Funders / donors	<ul style="list-style-type: none"><li>➤ Sound stewardship</li><li>➤ Utilization of funds for given mandate</li></ul>
Public	<ul style="list-style-type: none"><li>• Accountability and transparency in operations</li></ul>
Government	<ul style="list-style-type: none"><li>• Compliance with rules and regulations</li></ul>

# Role of Reporting and Accountability

**Needs to be clearly understood that :-**

- ☐ **Worldwide there are no IFRSs for NPOs (NGOs) – yet to get there !**
- ☐ **NPOs can NOT fully comply with IFRSs currently in use even if one attempted to**

# Fundamental Financial Reporting Principles in Non-Profit Accounting

## a) Stewardship is a **MUST** Consideration

- Third Party Funds
- Program funds
- Consistency with budgets and agreements

## b) Statutory

- The five components of a financial statement are a **MUST**.



# **Why Report – A stakeholder view:**

- a) The right to know about activities**
- b) Decision-making aspect, reporting to stakeholders who have either an oversight of, or a participatory role in, actions taken to ensure compliance**
- c) Reporting reduces temptation of money laundering and fraudulent activities**

# **Why Report – A good corporate citizen view**

**a) Openness and inclusiveness**

**b) Value addition to society**

# **KENYA CASE**

## **Creeping Constraints on Reporting**

- 1. A future of reduced funding as multilateral donors look elsewhere**
- 2. Lack of government policy to fill the coming gap**
- 3. Perceived hostile regulatory environment**
- 4. Mistaken belief that NPOs are a security threat and paranoid fixation / veil it casts.**

# **KENYA CASE**

## **Creeping Constraints on Reporting**

### **5. Lack of a deliberate government policy to attract and retain foreign NPOs**

- **A cheap source of forex**
- **Employment & related rentals**
- **Multiplier factors in the economy**
- **Higher reporting and accounting standards from home offices**

# **KENYA CASE**

## **Creeping Constraints on Reporting**

### **6. Unfortunate claim that Kenya is a middle income economy**

- **So can borrow cheaply! !**
- **Borrowing cheaply for what + for who?**
- **Trade off with free FDI funds and jobs**

# **KENYA CASE**

## **Creeping Constraints on Reporting**



**A middle income  
economy ??!**

# **KENYA CASE**

## **Creeping Constraints on Reporting**



**A middle income  
economy ??!**

# **Globalization of financial reporting in the not-for-profit sector**



# **Globalisation – What is it?**

**Globalization is the process of international integration arising from the interchange of world views, products, ideas and other aspects of culture.**

***([en.wikipedia.org/wiki/Globalization](http://en.wikipedia.org/wiki/Globalization))***

## **Aim of Globalized - Financial Reporting Context**

**Internationally convergent accounting standards for the NPO Sector.**

# Benefits of Globalization

- ❑ **Comparability**

- ❑ **International expansion**

- ❑ **Cost effective way of ensuring accountability and savings in terms of audit and regulatory effort by NPOs through use of uniform rules.**

- ❑ **Will ensure quality reporting which will improve donors and funders trust and confidence in NPOs**

## **Globalization – Issues:-**

- **No Common terminology**
- **Different measures of success**
- **Lack of standardized narrative**
- **reporting requirements**
- **Non exchange transactions**
- **Income and expenditure recognition**

## **Globalization - Accounting Issues :-**

- **Gifts in kind**
- **Returns and claw back**
- **Impairment, value in use, depreciation**
- **Forex – funder requirements can differ from accounting standard requirement**

## **Globalization – Towards Convergence**

**The International Forum of Accounting Standard-Setters, at its April 5, 2016 meeting (Canada) moved toward creation of a working group that would devise how to go about developing standards for NPOs reporting**

# Globalization – Towards Convergence

**The topic of how a wide variety of not-for-profit organizations should report their activities has bedeviled rulemakers such as the Financial Accounting Standards Board.**

**Issues, such as how to handle grants, and basic definitional questions have proved challenging to the standard-setters.**

## **The Global Dimension – Case for Standards :-**

**Many Not for Profits have global presence / connections - includes those that :-**

- **Operate internationally**
- **Fund organisations that are in a different country**
- **Part of an international federation**
- **Have joint ventures, strategic alliances and other collaborative working arrangements with organisations in another country**

# Global NPO Operating and Reporting Models

- **At the extremes INGOs are operational or grant making but there are many variants in between**
- **Typically operational INGOs operate through a presence on the ground. This may be through independent national offices or branches**
- **This leads to financial reporting considerations about group accounts, controlled entities, disclosures and governance**



- **Most regimes recognize the principal of “control” where one reporting entity which is controlled by another is included within group accounts.**

## **National or International**

**Whilst an international Standard will benefit all Not-For-Profits, it is particularly relevant for those that have a cross border dimension**

**Some of these organizations also demand reports which are more difficult for NPOs to produce.**

## **Key Issues – Globalized NPO Reports**

### **Overarching diversity issues and operating models**

- **Form and Content** – narrative report, primary statements and notes
- **Expenditure recognition** – grants, executory contracts, constructive obligations

## **Key Issues – Globalized NPO Reports**

### **Overarching diversity issues and operating models**

- **Fund Accounting** – restrictions, conditions
- **Disclosures** – public accountability, success measures
- **Income recognition** – when, what, by whom

## **Disadvantages of globalization**

- ❑ Negative impact on small NPOs**
- ❑ High costs of international expansion**
- ❑ Problems with standards not globally accepted**
- ❑ Resource scarcity and under developed infrastructure**
- ❑ Destabilization of some member countries NPOs**
- ❑ Lack of staff knowledge and skills**

# **New World Order – Beyond IFRSs**

## **Towards Globalization - Sustainability Reporting** **(ALL Reporting Entities)**

### **What is Sustainability Reporting?**

**A measure of and communication on an organization's performance on issues that impact its profitability / value to society.**

# **New World Order – Beyond IFRSs**

## **Towards Globalization - Sustainability Reporting** **(ALL Reporting Entities)**

### **Principles in Sustainability Reporting**

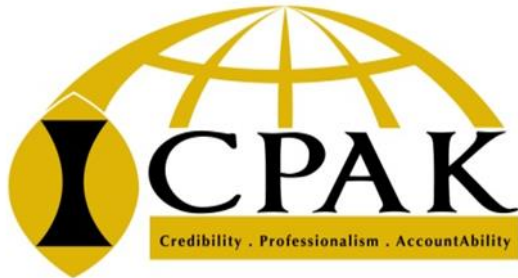
- I. Balance and completeness**
- II. Accuracy and timeliness**
- III. Materiality and reliability**
- IV. Governance of the organization**
- V. Transparency and balance**
- VI. Independent third party to conduct assurance verification**

# **New World Order – Beyond IFRSs**

## **Towards Globalization - Sustainability Reporting** **(ALL Reporting Entities)**

*Inter-governmental Working Group of Experts on  
International Standards of Accounting and Reporting  
(UNCTAD 14 Meeting at KICC Nairobi, July 21<sup>st</sup> 2016)*

**“In producing the goods and services that the global community consumes, enterprises utilize human, natural and financial resources that need to be recognized, measured and reported on, considering the targets and challenges of the Sustainable Development Goals (SDGs) agenda”**



**THANK YOU  
END**



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