



International Financial Reporting  
for Non Profit Organizations

# When IFRS is not enough – Developing a Framework for International NPO Reporting

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Samantha Musoke, ACA, CPA(U)

Project Director IFR4NPO, Humentum

# 1

## What's the problem?

# IFRS don't apply

- IFRS Preface:
  - “Although IFRS are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate”
- IAS1 Para 8:
  - “Non-profit, government and other public-sector enterprises seeking to apply this standard may need to amend the descriptions used for certain line items in the financial statements and for the financial statements themselves”

# Uganda FiRe Award Opinions

## Opinion

We have audited the accompanying financial statements of Reproductive Health Uganda (RHU), which comprise the statement of financial position as at 31 December 2018, and the statement of income, expenses and changes in fund balances and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 13 to 41.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Reproductive Health Uganda as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with IPPF and RHU guidelines and regulations.

We have audited the financial statements of Child's i Foundation (CiF) (the organisation) which comprise the statement of financial position as at December 31, 2016, the statement of income and retained funds, statement of cashflows for the year then ended, and notes to the financial statements including a summary of the significant accounting policies.

In our opinion, the organisation's financial statements give a true and fair view of the financial position of the organisation as at December 31, 2016, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium sized Entities, the Companion Guide for SMEs for Not-for-Profit, and the NGO Act 2016.

# Which framework?

- Q: What framework do you use?
- Frameworks mentioned in audit opinions
  - IFRS
  - IFRS for SMEs
  - IPSAS
  - Companion Guide to IFRS for SMEs for NPOs
  - Organisation's own guidelines
  - No framework at all



**INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED – 31ST DECEMBER**

	2017	2016
INCOME		
Grants	48,726,420	55,821,725
Donations	-	-
Other incomes (Consultancy, Interest received etc)	-	-
	<u>48,726,420</u>	<u>55,821,725</u>
DIRECT PROJECT EXPENDITURE	(31,517,752)	(37,950,361)
	<u>17,208,668</u>	<u>17,871,364</u>

**LESS: OPERATING AND ADMINISTRATIVE  
EXPENSES:**

Salaries and Wages	12,340,000	12,170,000
Telephone and Postages	278,500	211,341
Printing and stationery	285,700	142,925
Transport and Traveling	272,850	185,240
Computer running	268,300	205,150
Newspaper & Periodicals	287,800	235,200
Repairs and Maintenance	243,165	190,390
Generator running	257,214	525,800
Public Relations & Entertainment	278,600	151,670
Bank Charges	408,700	761,113
Office Rent	600,000	600,000
Electricity		
Gifts and donation		
Depreciation		
Audit and Accounting		
Office Cleaning and		
Internet/E-mail Expen		
Subscription		
Exchange Loss		

SURPLUS / (DEFICIT) FOR

**2. STATEMENT OF ACCOUNTING POLICY**

The following summarizes some statement of accounting policies applied by the organization in arriving at the accompanying accounts:

**a. Grants:**

Grants are received principally from the following donor in the year:

- I. Global Partners Digital
- II. IFEX

The amounts received have been converted at the ruling markets rates. Some of the projects are still on going.

100% restricted income both  
years  
2 donors but no breakdown in  
notes  
No grant recognition policy



BALANCE SHEET – AS AT 31<sup>ST</sup> DECEMBER 2017

	(NOTES)	2017 N	N	N	2016 N
<b>FIXED ASSETS</b>	(4)		1,677,110		2,081,636
<b>CURRENT ASSETS:</b>					
Inventory	(5)	1,793,000		1,989,000	
Debtors and prepayments	(6)	975,000		2,170,000	
Cash and bank balances		67,367,352		66,097,106	
		<u>70,135,352</u>		<u>70,256,106</u>	
<b>CURRENT LIABILITIES:</b>					
Creditors and Accruals	(7)	<u>(3,742,210)</u>		<u>(4,570,110)</u>	
<b>NET CURRENT ASSETS</b>					

**FINANCED BY:**

Accumulated fund	(8)
Projects Asset Fund	(9)

**8. ACCUMULATED FUND**

Balance at January 1 <sup>st</sup>	67,485,932	66,565,752
Surplus/Deficit for the year	302,620	920,180
	<u>67,788,552</u>	<u>67,485,932</u>
Balance as at December 31 <sup>st</sup>		

**9. PROJECT ASSETS FUND**

281,700	281,700
<u>281,700</u>	<u>281,700</u>

This represents capital grants for assets acquire under projects which had been previously written-off to direct project expenditure on cash basis now capitalized.

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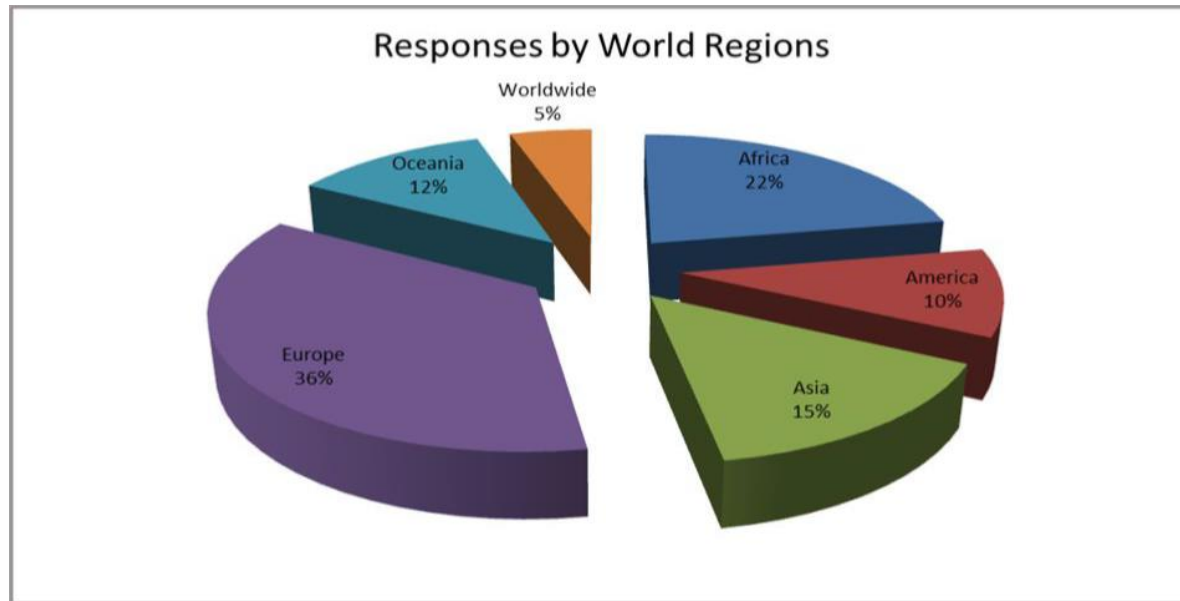
# Need for International Guidance

- NPOs increasingly operate internationally
- Register and report in different countries
- NPOs have different financial reporting requirements:
  - Nationally (if any)
  - Funders
- NPOs have different users with different needs
- Different concepts apply
- Current situation is lose / lose for NPOs and funders
  - Resources wasted meeting / interpreting differing reporting requirements
  - Undermines accountability, transparency, credibility, trust



# Demand for Solution

- 2014 academic study funded by the UK Professional Accountancy Organisations of international financial reporting for the NPO sector
- 605 responses - 179 countries



- 72% 'agreed' or 'strongly agreed' an 'international standard' for NPOs would be useful
- <http://www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf>

# Why has no one issued a standard?

- **IASB** - focus is capital market needs
- **IPSASB** - limited resources, focus is government needs
  - 2015 decision: Neither Board has mandate or resources to develop guidance for NPOs
- **IFASS** (International Forum of Accounting Standard Setters)  
NFP Working Group - exploring issues since 2016
  - International NFP platform summarising national guidance - [www.cipfa.org/policy-and-guidance/standards/international-not-for-profit-platform](http://www.cipfa.org/policy-and-guidance/standards/international-not-for-profit-platform)
  - IFASS - neither mandate nor resources to begin guidance development

2

What's the  
solution?



# International Financial Reporting for Non Profit Organizations

#IFR4NPO

# IFR4NPO Project Objectives

- Set a clear, consistent benchmark of what good financial reporting looks like
- Support stronger NPO financial management
- Support greater harmonization of funders' requirements to save time and administrative costs for funders and NPOs
- Provide basis for comparison between organizations and jurisdictions
- Satisfy demand amongst national standard setters

## IFR4NPO: Project Overview

- Humentum / CIPFA partnership
- Project design in consultation with FASB, IPSASB, ACCA, IASB
- \$1m Funding to start project provided by Open Society Foundation and Ford Foundation

# Who is Humentum?



- Membership Association (285), NPO sector convener and advocate.
- MISSION: To inspire and achieve operational excellence for organisations focused on positive societal impact.
- Formed in 2017 from merger: Mango + Inside NGO + LINGOs
- Registered in US & UK. Virtual. 50 staff globally.
- Roundtables, conferences, webinars, training (F2F & Online), Humentem Connect
- Advocacy – sector wide issues

# Who is CIPFA?



- Chartered Institute of Public Finance and Accountancy, UK
- Only professional accountancy body in the world exclusively dedicated to public finance
- Founding member of IFAC
- Offers CPFA qualification (Chartered Public Finance Accountant)
- 14,000 members in UK and beyond
- Ian Carruthers, CIPFA Chair Standards, is also currently chair of IPSASB



# IFR4NPO: Project Structure and Roles



- Guidance development
- Technical experience

## **Technical Advisory Group (TAG)**

- Individuals from National Standard Setters
- IASB Observer



- Sector convener
- Outreach and engagement

## **Practitioner Advisory Group (PAG)**

- Individuals with strong sector experience
- Regional linkages

# Technical Advisory Group

## TAG: 3-4 Oct, London



# TAG

- [Humentum.org/ifr4npo/tag](http://Humentum.org/ifr4npo/tag)
- Members from Australia, New Zealand, Canada, USA, France, Austria, Colombia, Sierra Leone, East African Community (Rwanda), PAFA (South Africa), UK, Malaysia with IASB observers
- 2 x F2F meetings a year plus monthly 2-hours online
- Questions discussed at recent meetings
  - Are the primary guidance users preparers, funders and national standard setters?
  - Should the guidance be aimed at small and medium sized NPOs?
  - Should the guidance sit alongside IFRS for SME?
  - Should the guidance be stand alone, companion guide or Add-on approach?
  - What's the long list of sector specific issues the guidance needs to address?



# IFR4NPO: 3-Stage Development Process

## Consultation Paper

- Identify issues / articulate possible solutions
- Mobilise interest / get initial feedback
- July 2019 to June 2021

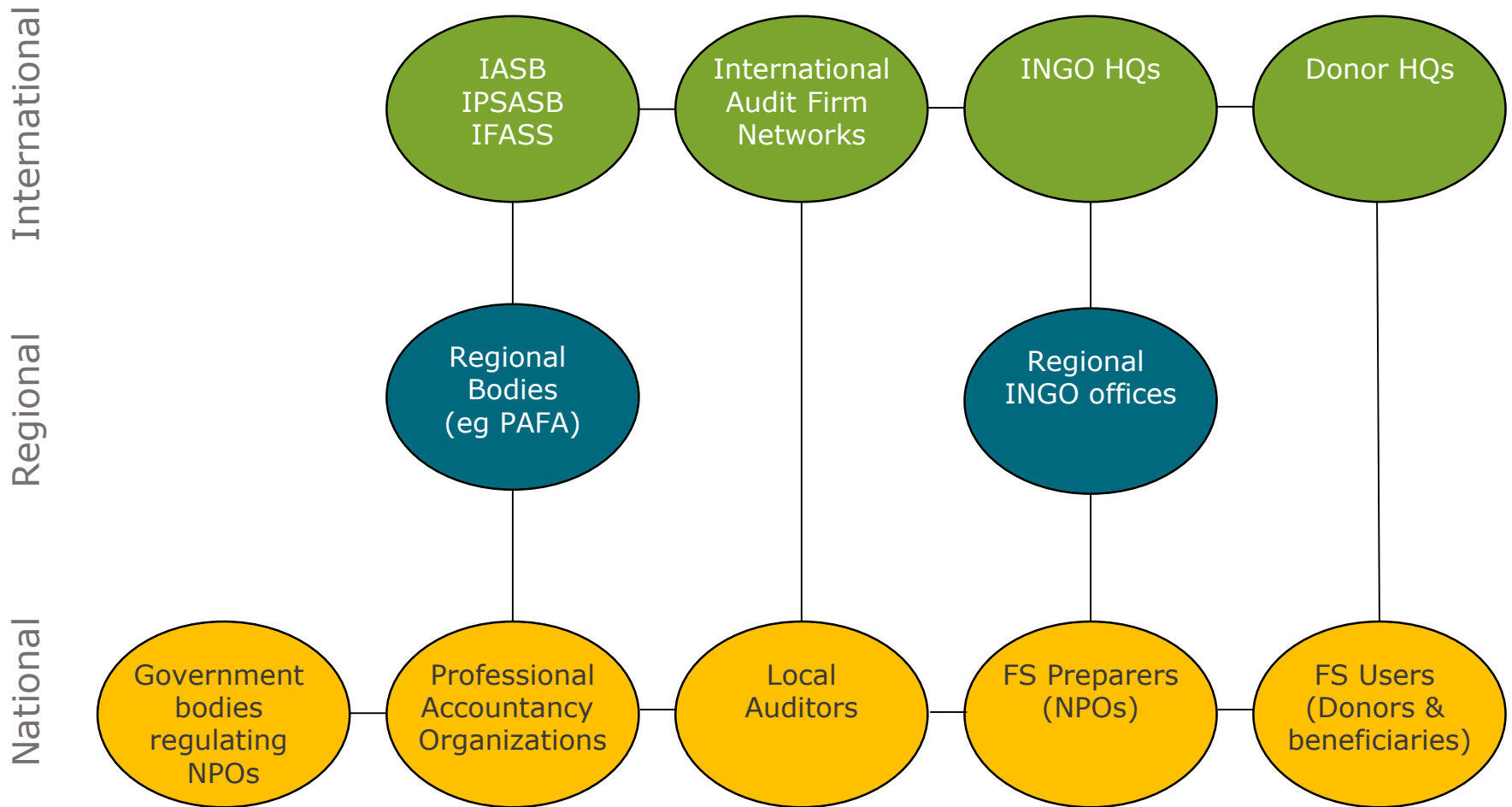
## Draft Guidance

- Evaluate Consultation Paper feedback
- Develop proposed solutions
- July 2021 to June 2023

## Final Guidance

- Evaluate Draft Guidance feedback
- Finalise Guidance
- July 2023 to June 2024

# Stakeholder engagement



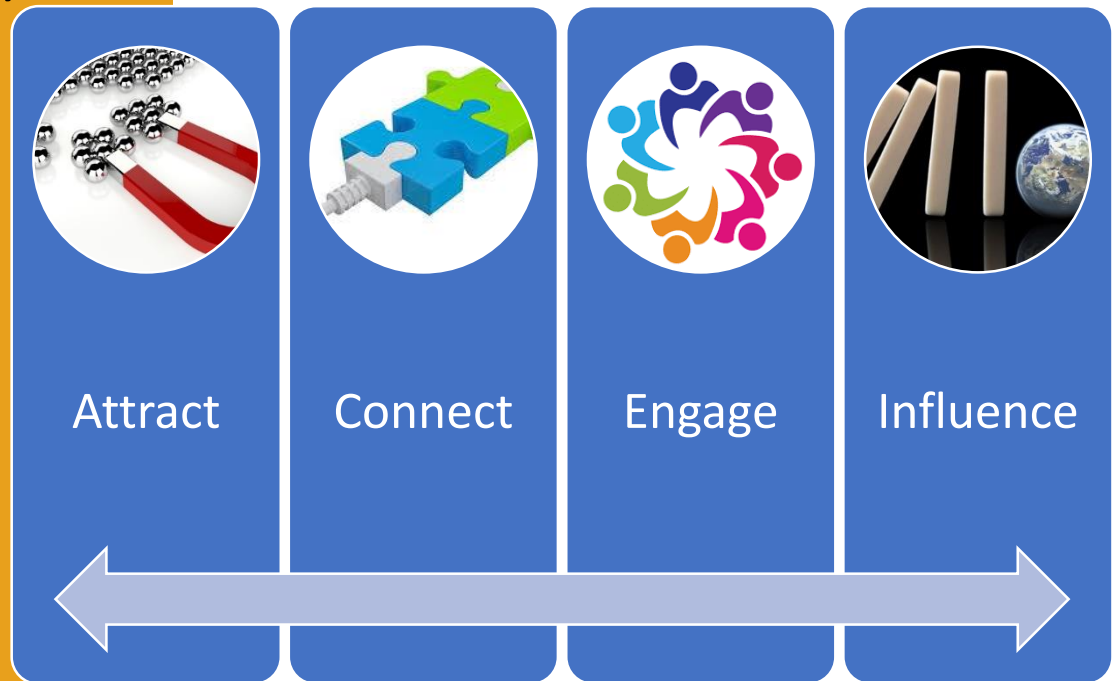
# Practitioner Advisory Group (PAG)

- [Humentum.org/ifr4npo/pag](http://Humentum.org/ifr4npo/pag)
- 10 of 20/25 members so far appointed.
- Nationalities: UK, US, India, Zimbabwe, Switzerland, Russia, Indonesia, New Zealand, South Africa, Kenya
- Based in: UK, US, Switzerland, Indonesia, South Africa, Kenya, Uganda
- Stakeholder groups: NPOs, Funders, Auditors, Regulator, Consultant, Academic, GFGP
- Seeking more members from Latin America, Middle East, Asia, Asia Pacific, NPOs including local / networks
- First meeting 5-6 Dec Nairobi. Public Gallery



# Outreach Strategy

- **Attract:** Sign up. Humentum network. Country Champions and PAG members
- **Connect:** Newsletters – links to content and opportunities to engage. Join the conversation in Humentum Connect
- **Engage:** Webinars, meetings, polls, formal responses to Consultation Paper and Exposure Draft
- **Influence:** Adoption of and alignment to the guidance





# 10 regions, target countries

Regions	Country meetings	Regional meeting
East Africa	Kenya, Ethiopia	Kenya
West Africa	Nigeria, Sierra Leone	Nigeria
Southern & Central Africa	Zimbabwe, DRC, Mozambique	South Africa
Middle East & North Africa	Jordan, Sudan	Jordan
South East Europe & Central Asia	Ukraine, Afghanistan	Turkey
South Asia	India, Bangladesh	India
South East Asia	Indonesia, Viet Nam	Indonesia
Asia Pacific	PNG, Fiji	Australia
Latin America & Caribbean	Brazil, Colombia	Brazil
Europe & North America	Washington, Brussels, London	



# Outreach Activities

- Public TAG and PAG meetings
- Website
- Bi-monthly newsletters
- Humentum Connect
- Content: photos, blogs, videos, podcasts, technical papers, conferences
- Social media: Twitter, LinkedIn, Facebook
- Webinars – hosted by stakeholders
- Focus country meetings – facilitated by Champions
- 10 regional meetings – facilitated by IFR4NPO team



STAKEHOLDER ENGAGEMENT



TECHNICAL RIGOR

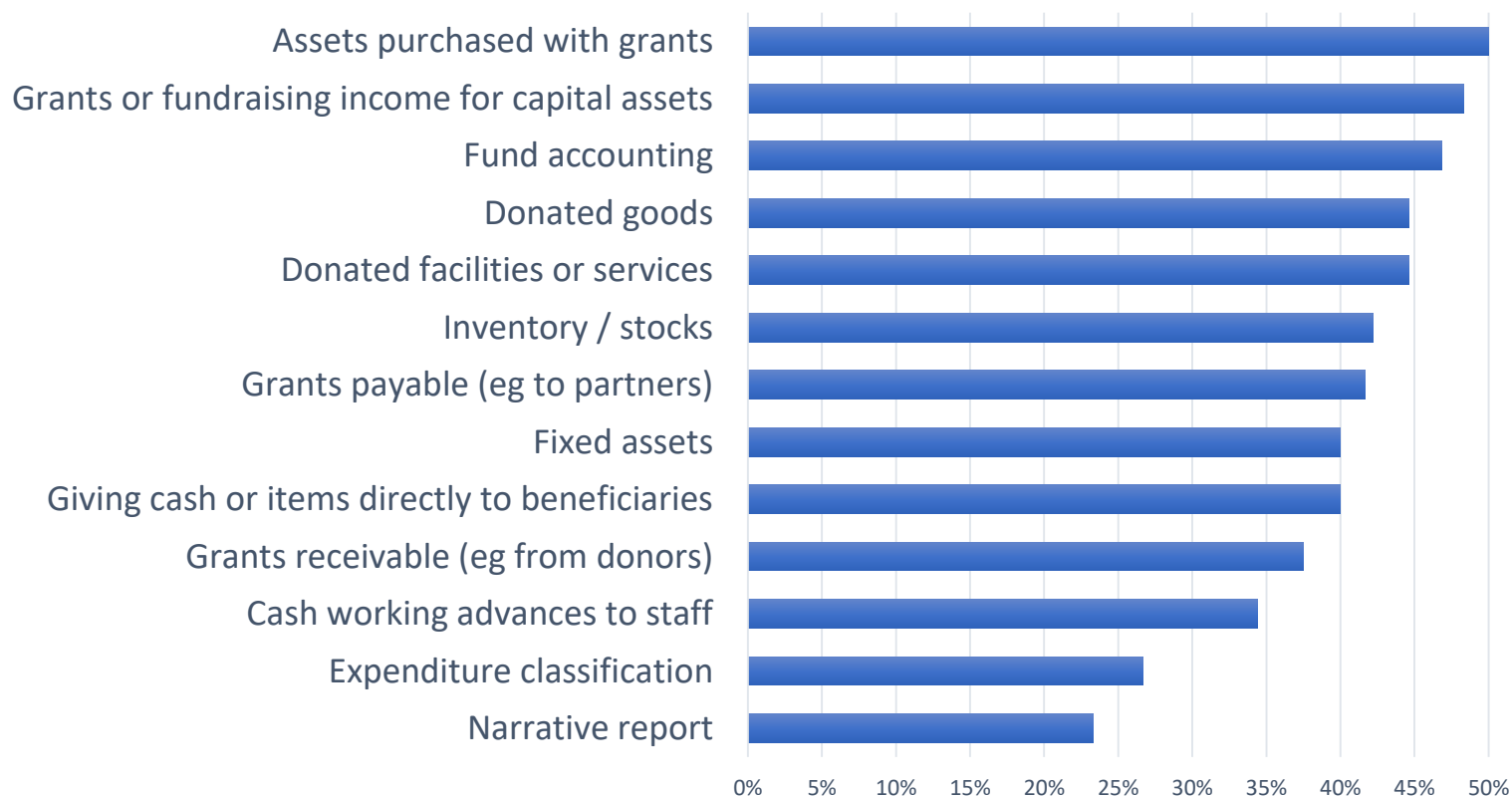


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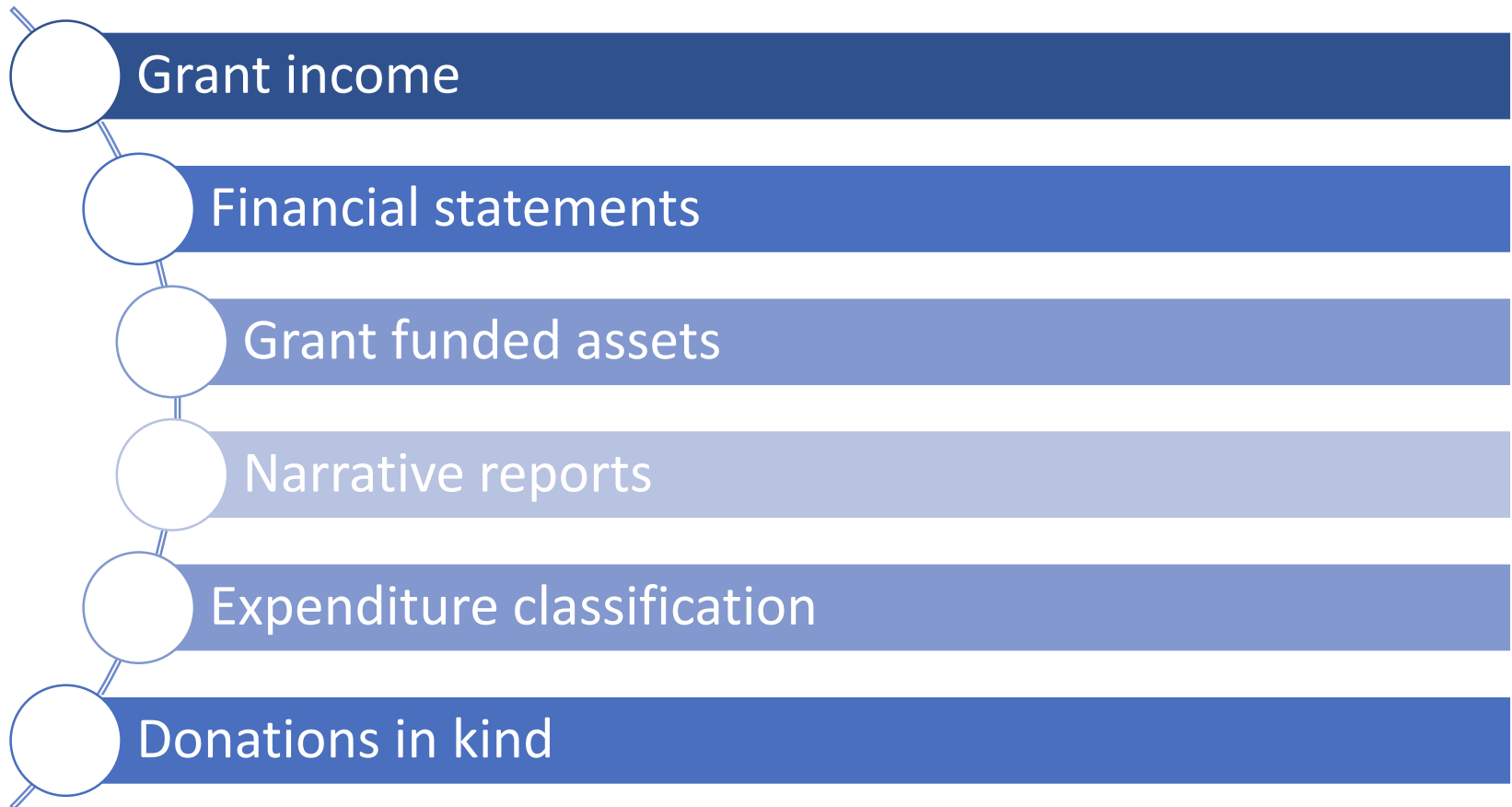
# Some specific NPO issues

# Survey of 16 Ugandan NGOs in May 19

## Most contentious issues



# Hot topics for today



# Grant income

- Q: Is this important? Why?
- Total income a critical determinant of NPO size
- Many bases in use
  - Cash basis (received)
  - Receivable
  - Defer to future periods if received in advance
  - Recognise only to extent spent (IAS 20)
- Lack of clear definition and consistent treatment for grants with requirements / conditions / restrictions (temporary / permanent)

# Grant funded assets

- Q: Is this important? Why?
- Receive a grant to purchase or construct an asset.  
Same issue for gift-in-kind assets
- Need to show the capital expenditure against income for donors
- Also need to capitalize assets on balance sheet
- Can't do both! Where to put the second credit?
  - Capital fund (equity)?
  - Capital grant (liability)?
  - Interfund capex transfer?



# Expenditure classification

- Q: Is this important? Why?
- Natural classification essential
- Other ways to analyse and summarise expenses very important for users
  - Programme / mgmt / fundraising?
  - Split by programmatic areas?
  - Direct implementation vs sub-granting
  - Indirect cost rate?
- Do small and medium NPOs Accounting system limitations make it impractical to implement?



# Financial statements

- Q: Is this important? Why?
- Income statement with columns for different types of funds?
- Merge income statement with retained earnings?
- Vertical or horizontal balance sheet?
- Disclosure about movement in funds?

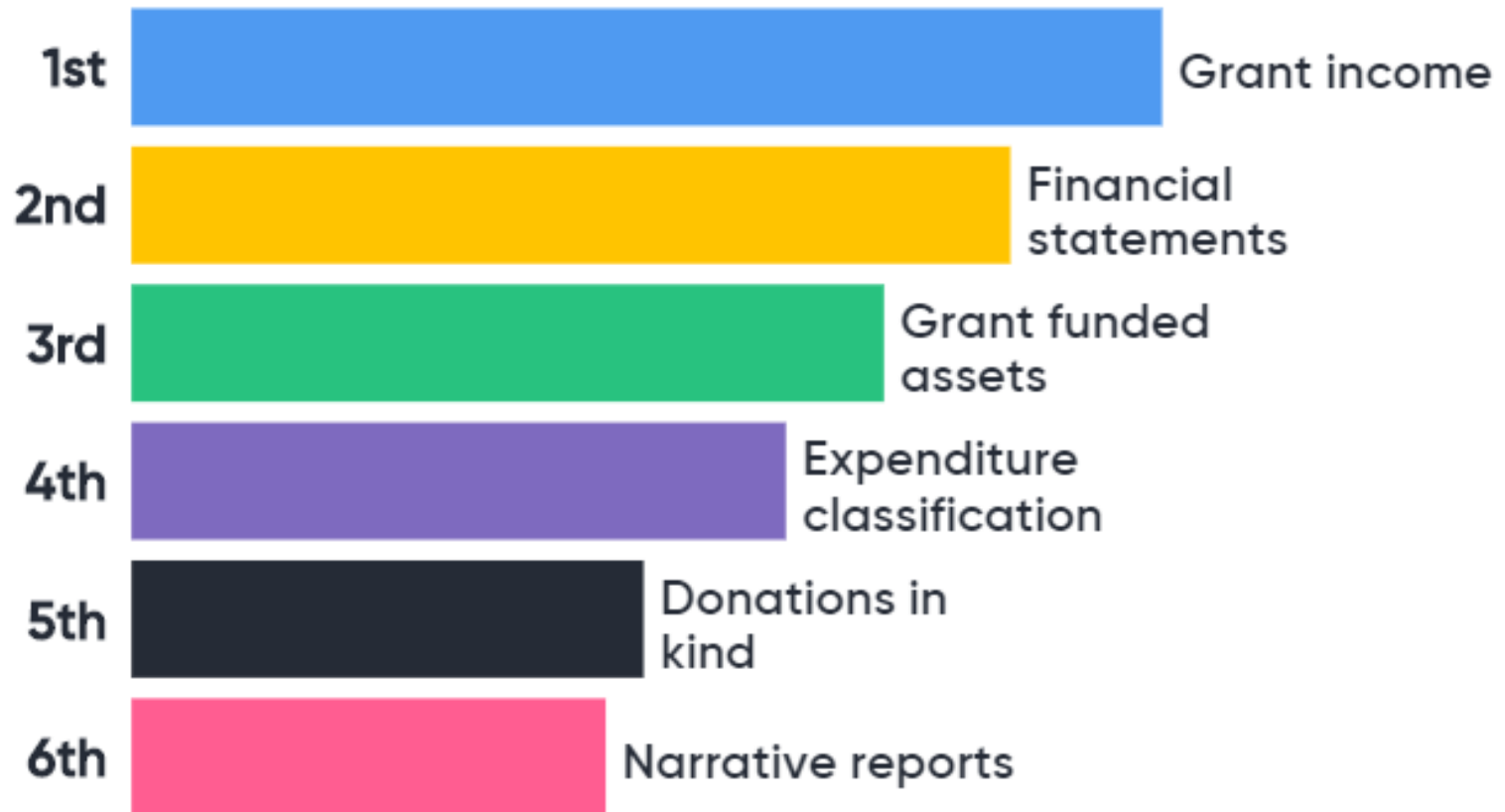
# Narrative report

- Q: Is this important? Why?
- Crucial context for interpretation of figures
- Main go-to place for many users of FS
- Reflects social rather than profit motive for existence
- But what should it include? Minimum / maximum amount of content?
- Rely on IFRS1 Practice Statement?
- What level of audit assurance should it have?

# Gifts-in-kind

- Q: Is this important? Why?
- Goods / services / assets / volunteers – happens a lot.
- Social capital is an NPO's 'super power'
- Some jurisdictions require recognition at fair value if certain criteria are met
  - Very difficult to objectively measure
- IFRS requires recognition if the gift or services constitute an asset (Cr Income, Dr Asset)
- Is this just extra burden for small and medium NPOs?

# What do you think?





[www. ifr4npo.org](http://www.ifr4npo.org)



# International Financial Reporting for Non Profit Organizations

## #IFR4NPO



STAKEHOLDER ENGAGEMENT



TECHNICAL RIGOR



**REGISTER FOR UPDATES**



**ACT  
NOW**

- Register for updates
- Share in your networks
- Attend PAG meeting
- Check out TAG & PAG papers
- Attend Kenya meeting
- Attend regional consultation meeting
- Join the conversation in Humentum Connect
- Respond to the CP, through ICPAK

4

But what should  
we do in the mean  
time?



# ACCA Companion Guide



- 25 pages
- Works by cross reference to IFRS for SME
- Based on the UK Charities SORP
- Foreword by IASB
- Includes guidance for audit opinion wording



- Inadequate consultation
- Not formally adopted
- Hardly in use



# What does companion Guide cover?

- Management commentary
- Restricted and unrestricted fund accounting
- Recognition of grants – given and received
- Donations in kind
- Impairment of assets that do not generate cash flows
- Soft loans
- Key management personnel – remuneration and other transactions



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# Thank you

[sam.musoke@humentum.org](mailto:sam.musoke@humentum.org)