

IFR4NPO

Committee	Charities SORP Committee
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Author	Secretariat to the Charities SORP Committee
Subject	Summary of the Topics Considered by the #IFR4NPO

Aims

- To summarise the issues considered by the International Financial Reporting for Non Profit Organisations IFR4NPO

1 Introduction and Background

- 1.1 At its 12 March 2020 meeting the SORP Committee considered the work of the IFR4NPO project. It was updated about the project and its governance structure for technical development. The project is seeking to develop financial reporting guidance for non-profit organisations.
- 1.2 The governance structure has established a Technical Advisory Group (TAG) which has met monthly since October 2019 and the Practitioner Advisory Group (PAG) which meets to discuss advisory input and feedback on the development of guidance on a quarterly basis.
- 1.3 There is a robust development process for the guidance which commenced in June 2019 and it is anticipated to be complete by December 2024. The next major milestone will be the issue of the first stage consultation paper around the end of January 2021.
- 1.4 In order to augment the debate on the topics to be considered by the engagement strands the joint SORP-making body requested that CIPFA summarise the topic areas considered by the Technical Advisory Group as a part of the IFR4NPO project.
- 1.5 The IFR4NPO project is anticipated to issue the consultation paper in two principal parts. The first part will consider:
 - the target population – what are NPOs what are the broad characteristics that define them?
 - who are the users of NPO financial statements?
 - who are the NPOs accountable to?

- what are the problems with the current accountability arrangements with NPOs?
- what are the main features of NPO financial reporting?
- how can the project best meet the needs of the sector?

1.6 Many of these issues or similar issues might also be considered or suggested by the engagement strands.

2 Prioritised List of Topics

2.1 The second part of the IFR4NPO consultation paper will focus on a prioritised list of topics it sees as being important for NPOs. This list will eventually form a large part of its guidance. For each topic part 2 of the consultation paper is anticipated to consider:

- an outline of the issue to be resolved
- the financial reporting challenges raised by the issue
- international and national GAAP reporting requirements which cover the issue (where they exist)
- alternative proposals to resolve the challenges – featuring the advantages and disadvantages of each alternative suggested.

2.2 The topic areas to be included in part 2 of the consultation are considered under the following headings:

- recognition and measurement of incoming resources
- accounting for outgoing resources
- form, content and scope of financial reports.

The individual topics are summarised in the Annex to this report.

2.3 The Charities SORP Committee will note that for a number of these issues the SORP already includes an accounting or a reporting treatment, though the CIPFA Secretariat is of the view that it may be useful to monitor the progress of the IFR4NPO on the outcomes for each topic area. It is also possible the consultation process will give rise to other topics considered by the project.

The committee is:

- **invited to note this report, and**
- **consider whether it wishes to respond to the consultation when it is issued in January 2021.**

Prioritised List of Topics for the IFR4NPO Project

Topic	Issues to be Considered
Recognition and Measurement of Incoming Resources	
<p>Recognition and measurement of incoming resources from external sources</p>	<ul style="list-style-type: none"> • What are the overarching principles for the recognition and measurement of incoming resources from 'non-exchange' transactions, (of which donations, grants, services in-kind income are all categories)? • Is there anything sector specific regarding exchange transactions (e.g. provision of services to other parties)?
<p>Cash transfers - donations, grants and other contributions with time and purpose requirements and other criteria/performance obligations</p>	<ul style="list-style-type: none"> • Timing of income recognition and definition of performance criteria/obligation. What is the recognition and measurement process when receiving donations that are used to fulfil requirements (including a specific time and purpose requirement) in subsequent periods? • When should donations to purchase a capital asset be recognised? What if the donation is repayable if the asset, at some future date, is no longer used for its intended purpose? • Timing and recognition of pledges and bequests? • How should such transactions be disclosed?
<p>Services in-Kind (including volunteers)</p>	<ul style="list-style-type: none"> • When should services in-kind be recognised and if they should be

Topic	Issues to be Considered
	<p>recognised how should they be measured?</p> <ul style="list-style-type: none"> • What disclosures should be provided? • Recognition and measurement of 'right of use' donations (including free use of space and equipment)?
Gifts in-Kind (non-financial assets)	<ul style="list-style-type: none"> • When should gifts in-kind be recognised and how should they be measured • Gifts in-kind can have stipulations, with which an NPO must comply to be entitled to use the asset and these stipulations can affect the point at which revenue is recognised? How will these be measured?
Accounting for Outgoing Resources	
Classification of expenses – function or nature	<ul style="list-style-type: none"> • Should the primary analysis of expenses be based on function or nature of spend? • How should they be presented and/or disclosed? • What should the primary headings/categorisations be?
Costs of fundraising	<ul style="list-style-type: none"> • 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?

Topic	Issues to be Considered
Grant expenses	<ul style="list-style-type: none"> • Recognition and measurement of NPO 'non-exchange' transfers to individuals and other entities. • When is a liability recognised (whether a grant or promise), particularly in a multi-year arrangement?
Agency relationships	<ul style="list-style-type: none"> • When is the NPO acting as an agent and when is it acting as principal? • Should there be disclosure requirements 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)?
Measurement of tangible and intangible assets held for their service potential	<ul style="list-style-type: none"> • How should assets that are held for service potential be measured, both initially and subsequently? • How do you identify impairment where assets are held for service potential (e.g. assets do not generate any income, or generate income at below market rate)? • How should assets that can only be used for a specific purpose and may have to be returned be measured initially and subsequently? • When an impairment has been recognised, what disclosures should be made?
Inventory	<ul style="list-style-type: none"> • The challenge is defining the types of inventory an NPO holds. • Other challenges exist in terms of measuring donated inventory.

Topic	Issues to be Considered
	<ul style="list-style-type: none"> • Particular difficulties may arise because donated inventories are often high in volume and low in value.
Form, Content and Scope of Financial Reports	
Reporting entity and control	<ul style="list-style-type: none"> • How is a reporting entity defined and also control (as NPOs may not be exposed to investee returns in a conventional sense)?
Financial statement presentation	<ul style="list-style-type: none"> • How should financial statements be presented to help the user in understanding an NPO's activities? • Should there be disclosure of material categories of income and expenditure and/or transactions? • What is the role of fund accounting? How should unrestricted and restricted funds that can be used for specific NPO purposes be presented for the main financial statements and notes (including reserves)? How does this align with donor reporting requirements?
Narrative reporting, (including service reporting)	<ul style="list-style-type: none"> • 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? • What should the service reporting requirements be for NPOs?