# Practitioner Advisory Group

AGENDA ITEM: PAGFG01-02
2 May 2024 – Online

# Narrative Reporting

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| Summary | This paper provides the PAG with an overview of the key points arising from the consultation feedback on Exposure Draft 1 for consideration in the development of the final INPAG Guidance for narrative reporting |
| Purpose/Objective of the paper | The paper provides PAG with a summary of the responses to the specific matters for comment for narrative reporting that were included in INPAG Exposure Draft 1, respondents views on those issues and potential responses for the final guidance. It highlights how the Secretariat intends to further develop the final guidance based on these views. It seeks PAG views on the specific areas and the overall final guidance ahead of review by TAG. |
| Other supporting items | N/A |
| Prepared by | Sarah Sheen |
| Actions for this meeting | **Comment** on:<br>(i)      the approach to sensitive information;<br>(ii)     the approach to sustainability reporting;<br>(iii)    the approach to the guidance on other information;<br>(iv)    the approach to transition in the final guidance<br>(v)     the approach to illustrative implementation guidance. |
| Abbreviations | SMC: Specific Matter for Comment<br>ED1: Exposure Draft 1<br>TAG: Technical Advisory Group |

# Practitioner Advisory Group
## Narrative Reporting

**1. Introduction**

1.1 This paper:
- Provides a summary and high level analysis of the consultation responses to the Specific Matters for Comment (SMC) relating to narrative reporting included in Annex A.
- Seeks PAG's advice on a number of the issues raised by the consultation responses, particularly relating to sensitive reporting, sustainability reporting and the reporting of other information.

**2. Exposure Draft 1 – issues for comment and feedback**

2.1 Narrative reporting was identified as a key issue in the IFR4NPO Consultation Paper. Draft principles based guidance (Section 35 Narrative Reporting) was developed and subject to consultation as a part of Exposure Draft 1 (ED1). Overall respondents were very supportive of the proposals with agreement ranging from 74 percent to 96 percent on each of the specific matters for comment. A snapshot of the outcomes is presented in Annex A.

2.2 A focus group on the three areas of: sensitive reporting, sustainability reporting and the reporting of other information took place on 24 April. The Secretariat will update PAG on the outcomes at its meeting.

*SMC 12(a) Do you agree with the principles proposed to underpin narrative reporting?*

2.3 Ninety-six percent of respondents, agreed with the proposed principles to underpin narrative reporting with two percent, disagreeing and two percent, indicating that they neither agreed nor disagreed. The respondents that agreed commented that the principles should result in useful performance information and financial statement commentary and are a great starting point for narrative reporting. They were of the view that the Guidance offered high level information until further international guidance was developed in this area.

2.4 The respondents to the survey for ED1 showed high levels of support for each of the principles. With each principle ranking at over 75 per cent as "very important". There were fifty-eight responses to this survey question. See Annex Aii for further details.

2.5 A small number of respondents to the first SMC argued for some form of differential reporting either by allowing for efficiency within groups or other means. However,

the Secretariat would suggest that this does not align with the overall approach in the proposals to provide minimum requirements which all NPOs can follow.  It would also make Section 35 more complex to understand and apply.

2.6 Some of the responses referred to the resource implications of producing a narrative report. This will be considered in the context of the approach to transition, and this will be discussed in more detail in section 5.

## 3. Sensitive Information

*SMC 12(c) Do you agree with the proposals that sensitive information can be excluded from narrative reports. If not, what alternative would you propose and why?*

3.1 Eighty-nine percent of respondents agreed with the proposals in ED1 with regard to sensitive information and narrative reporting.  Eleven percent disagreed.

3.2 The ED1 survey on narrative reporting produced results which supported the overall approach for exclusion of sensitive information with almost eighty percent of fifty-eight respondents indicating that they agreed that sensitive information could be excluded from narrative reports. When asked how important it was because it could cause harm to service recipients or NPO staff or volunteers, just under 90 percent indicated it was important or very important that NPOs should be allowed to exclude sensitive information.

3.3 Respondents to ED1 SMCs who agreed with the approach sought clarification or more guidance on:
- what sensitive information was (this included calls for a definition) because of wide disparities in operating environments
- when the specifications on sensitive information might apply
- how information might be disclosed without revealing the pertinent aspects of sensitive information, including calls for the "justification of the exemption"
- what the parameters should be to support decisions about what sensitive information is within a context, for example "an NPO who is working on FGM" or confidentiality for a hospital or medical based charity
- whether a set of principles could be devised to help identify circumstances where there is sensitive information.

3.4 Respondents that agreed were concerned that the guidance should be robust enough to avoid misinterpretation to ensure that adverse practices are avoided and when information may not necessarily be sensitive but might be damaging to the NPO. Their view was that it is paramount that NPOs have the discretion to make an

informed assessment as to whether particular information about their organization is suitable for publication.

3.5    The Exposure Draft argued that it was difficult to define what sensitive information is or even provide an exhaustive list of examples of what sensitive information might be. It might be possible to provide more examples but this risks the guidance being more rules rather than principles based. It might also be possible though to devise a set of principles to help assist those NPOs dealing with the possibility that there may need to exclude sensitive information.

3.6    The Secretariat is of the view that a list of principles or parameters might be able to be developed. This would build on the basis in ED1 that sensitive information is information which might put the NPO's service recipients, or the NPO at risk of all forms of harm, danger or persecution. There is a risk though that a list of more detailed principles might leave out particular circumstances.

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**Question 1: Do PAG members consider that more parameters or principles would be useful to help NPOs interpret the guidance on sensitive information? What are the pros and cons?**

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3.7    Some of the respondents that disagreed did so on the basis of the need for transparent reporting, raising concerns about the rights of users and information needed to take decisions. These respondents appeared to require more disclosure, including the reasons for non-disclosure.

3.8    At the other end of the spectrum some of the respondents that disagreed were concerned about the form of the disclosure included in paragraph G35.7.  They indicated for an NPO that has taken advantage of the exception that "*This disclosure is little better than reporting sensitive activities.*" A second respondent noted similar concerns particularly for NPOs with a social justice lens dealing with criminality, corruption or sensitive human rights issues, which may be deemed unlawful by repressive regimes indicating: "*the mere fact that they elect to 'exclude' themselves from providing information due to the sensitive nature, this can 'redflag' them with authorities determined to shut them down or cease their activities*". The respondent noted that:  "*it is shouting to the authorities that the organization has some activities that are at best controversial and at worst could place the organization, and/or its staff and/or its beneficiaries in danger.*"

3.9    Two respondents that disagreed indicated that the reporting requirements might cause difficulties for auditors, with one commenting that, "*Where an organisation*

*might decide not to report anything about those activities and to protect itself by not disclosing that it has taken advantage of the exception. The auditors will then have an impossible choice. Do they put the organisation back in danger by reporting the non-compliance with the guidance or do they put their professional position (and possibly themselves) in danger by colluding with their client and ignoring the non-compliance?"*

3.10    Exposure Draft paragraph G35.7 does not require substantial reporting that the exemption has been used but requires that the NPO "*should disclose that the narrative report has been prepared in accordance with the requirements of this paragraph"*. This would theoretically include the non-reporting of any commentary where this might place either service recipients, the NPO or its staff in any danger. It might though, be useful to be explicit about this either in section 35 itself or its implementation guidance.

3.11    This is an important issue and the Secretariat seeks the views of PAG members on the requirement for an explicit confirmation in all cases where it has been used.

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**Question 2: Reflecting on this feedback, what are PAG Members' views on the level of disclosure needed while ensuring that the sensitive information is not disclosed?**

**Question 3: What are PAG members' views on the non-disclosure of information in terms of the ability to express compliance with INPAG?**

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**4.    Scope of the Narrative Reporting Guidance and Other Information**

*SMC 12(b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional. If not, what changes should be made and why?*

4.1    Seventy-four percent of those that responded to SMC 12(c), supported the minimum mandatory reporting requirements in Exposure Draft 1. Twenty-one percent disagreed with five percent, neither agreeing nor disagreeing.

4.2    Positive comments from the respondents indicated that they agreed that this was useful, to ensure a base level of consistency and comparability and give NPOs an option to extend their narrative reports to cover additional areas. They were of the view that the information is essential for stakeholders to understand the organisation's operations and financial position.

4.3    Those respondents that disagreed indicated that:

- sustainability reporting should be mandatory (see next section)
- the principles should require more information on those charged with governance
- mandatory narrative reporting requirements within the Guidance could create unintended consequences (either duplicating information or conflicting with regulatory or jurisdictional requirements)
- there should be explicit reference to, and the incorporation of, concepts from the existing frameworks
- there was a need to report funds and their constraints effectively
- connectivity deserves greater emphasis.

4.4     Both the responses to SMC 12(a) and 12(b) included commentary on the reporting of other information and the need for more guidance on its provision with one respondent indicating that INPAG must provide clarity regarding optional additional information because if an entity decides to provide such optional narrative disclosures that election must be irrevocable in the future for prospective comparability.

4.5     Paragraph G35.30 does specify that where other information is provided, the additional information must, as far as possible, be presented in compliance with the requirements of Section 35 (principles, presentation, comparative information, consistency of reporting, and disclosure of judgements). This provides some prescription.

4.6     More detail might be able to be provided such as:
- where used it should support the mandatory reporting requirements and not obscure the key messages of the narrative report,
- comparative information should be used where relevant and
- ideally a recognised approach to provision of that information should be provided for example using recognised standards or industry practice (where this is the case the NPO should provide a description of the basis of reporting).

4.7     The Secretariat is of the view, that INPAG should not specify that other information provided should be "irrevocable" because circumstances or other changing factors might mean that an NPO would not be able continue to report on the previous basis, for example, the COVID-19 pandemic had a significant impact on reporting in the past.

4.8     Information about those charged with governance will be reported as part of related parties disclosures, which will be set out in Exposure Draft 3. This is more focused on related party transactions and personnel compensation than with information about

the individuals. However, the governance arrangements are within the mandatory scope.

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**Question 4: Do PAG Members have any other comments on scope, including whether there is demand for additional information about those charged with governance?**

**Question 5: Do PAG Members consider that further guidance is needed on the provision of "other information"? If so, what would be most useful?**

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## 5.    Sustainability Reporting

5.1    A small but significant number of respondents indicated that due to the impact and increased prevalence of climate change and environmental concerns that sustainability or (ESG) reporting should be included as a mandatory element in narrative reporting. Some referred to developments in sustainability reporting standards.

5.2    Commentary indicated that due to the impact that NPOs can have in promoting environmental sustainability there might be arguments for including it on a mandatory basis (but note the respondent that commented on this although disagreeing was not of the view that it should be mandatory but disagreed on other issues relating to scope). Inclusion of sustainability reporting as a mandatory requirement was also supported by the initial narrative reporting focus group.

5.3    A small number of the respondents indicated that the requirements, if introduced, could be introduced in a less complex way with others indicating that it could be scalable. This is countered, however, by a similar number of respondents that agreed with the proposed scope, offering the view that it was too early to include sustainability reporting in INPAG at this stage.

5.4    Sustainability reporting continues to grow in importance and will continue to do so as the climate emergency is unlikely to diminish. Since Exposure Draft 1 was issued, the International Sustainability Standards Board (ISSB) has issued two standards (S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate-related Disclosures).

5.5    There are, as yet, no internationally developed standards for either the public benefit sector or the public sector, either issued by the ISSB or the Global Reporting Initiative (GRI). Most developments have focused on the private sector and primarily to meet

the needs of resource/product based businesses and industry. They would likely require adaption for use by NPOs.

5.6    The IPSASB decided to progress with the development of a public sector specific Climate-Related Disclosures standard at its June 2023 meeting. The Exposure Draft is anticipated to be approved for publication by the IPSASB in September 2024. This standard will be issued in time to be considered in the development of the INPAG Guidance.

5.7    There is currently insufficient capacity and resources to include specifications for sustainability reporting within INPAG at this point. Also, there are broader challenges to introducing mandatory narrative reporting for NPOs as is evidenced by the consultation responses.

5.8    The Secretariat would, however, like to seek views on  the priorities for climate or other sustainability related reporting.  that could be considered for the future. Understanding these priorities could also help direct those NPOs that choose to produce sustainability information to appropriate materials.

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**Question 6: What are the priorities for NPO climate or sustainability reporting going forward?  What is driving these priorities?**

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## 6.    Transition

*SMC 12(d) Would a two-year transition period assist in overcoming any challenges?*

6.1    Eighty percent, forty-seven, respondents agreed with the proposed transition period set out in the SMC.  Seventeen percent, ten, respondents disagreed. Three percent, two respondents appeared to neither agree nor disagree.

6.2    The respondents that agreed indicated that it would allow a period to absorb implementation challenges. This would allow for a sufficient period for finance personnel within NPOs to prepare for and learn the requirements of the guidance. It would also provide time to allow for significant cost implications of the introduction of new systems and processes in preparing the presentation of this information including additional disclosure requirements and the increased costs of audits, and the need to understand and upskill (and perhaps even hire additional expertise) in terms of what is needed.

6.3     Four of the respondents that disagreed commented that NPOs should be able to meet the requirements as, for example, they already reported on comparative information. These respondents did not consider that narrative reporting was "*any more difficult than any of the other INPAG requirements*". This view extended to the cost of the provision of that information.

6.4     These respondents remarked on how narrative reporting was useful to the users of general purpose financial reports, with one respondent indicating that the inclusion of narrative information was useful for performance reporting highlighting how it has been useful in Australia, New Zealand, the United Kingdom and the United States. This included reporting in a more balanced way to include negative aspects of performance.

6.5     This is supported by the responses to the survey on ED1 where just under eighty percent of the fifty-eight respondents agreed with the need for a transition period.

6.6     The Secretariat agrees that there would be benefits to implementing the narrative reporting requirements as soon as possible.  However, the weight of the responses in favour of a two year transitional period would seem to indicate that there needs to be some form of transition period.  This is to meet the implementation challenges of the production of the narrative report while implementing the reporting requirements of the financial reporting sections of INPAG.

6.7     Respondents that both agreed and disagreed debated the length of transition with some indicating that it was too long (preferring one year) and others indicating that it was too short, preferring three years. It might be useful to note that the focus group on narrative reporting was significantly in support of the two year period. ED3 includes a section on the Transition to INPAG and there will be an SMC in ED3 to consider the transitional reporting period. It is notable that the respondents to the survey equally supported transition periods of 1 and 2 years at 40 percent for each suggested period.

6.8     The Secretariat is of the view that a transition period is needed by some NPOs and that there was no substantial evidence to suggest a different period to the two years suggested in the consultation.

6.9     Five respondents (including both those that agreed and those that disagreed) indicated that early adoption of the reporting requirements should be permitted. The Secretariat concurs with this view. This would ensure that the NPOs which have the information to enable them to meet the requirements could progress and meet the needs of users sooner. It might also identify good and best practice to support the

provision of educational materials. Section 38 Transition to INPAG supports this approach.

## 7. Implementation Guidance

7.1     There were a number of comments on the complexities of narrative reporting including ensuring that reports are balanced, difficulties in performance reporting and the connectivity of the information produced. The Exposure Draft did not include detailed illustrations but instead highlighted good and best practice. This was to avoid boilerplate narrative reporting.

7.2     The Secretariat is mindful that narrative reporting will evolve, particularly as data improves and as technology advances are made. As INPAG is intended to be relatively static guidance, illustrating the narrative reporting requirements may become quickly out of date.

7.3     PAG's views are sought on whether further exemplification is needed. Taking account of the view in 7.2, this perhaps could be achieved by focussing on each of the elements, with extracts from existing narrative reports to illustrate key components of the narrative report rather than a complete narrative report. This could be a resource available to INPAG users rather than part of the Implementation Guidance. The Secretariat is of the view that this would reduce the risk of boilerplate narrative reports but is unlikely to eliminate it. It would also enable different visualisations of similar information.

**Question 7: Do PAG members consider that examples of the elements of the narrative report would be useful to illustrate the requirements? What are PAG members' views on how this might be best achieved?**

May 2024

# Annex A(i) – Summary of Feedback Responses to SMCs for Narrative Reporting

| SMC 12(a) Do you agree with the principles proposed to underpin narrative reporting? | Response | Number | % of those who responded (total 62) |
|---|---|---|---|
| | Agree | 60 | 96% |
| | Disagree | 1 | 2% |
| | Neither agree nor disagree | 1 | 2% |
| | No Response | 7 | - |
| | Totals | 69 | 100% |

| SMC 12(b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional. If not, what changes should be made and why? | Response | Number | % of those who responded (total 62) |
|---|---|---|---|
| | Agree | 46 | 74% |
| | Disagree | 13 | 21% |
| | Neither agree nor disagree | 3 | 5% |
| | No Response | 7 | - |
| | Totals | 69 | 100% |

## Annex A(i) – Summary of Feedback Responses to SMCs for Narrative Reporting

| SMC 12(c) Do you agree with the proposals that sensitive information can be excluded from narrative reports. If not, what alternative would you propose and why | Response | Number | % of those who responded (total 63) |
|---|---|---|---|
| | Agree | 56 | 89% |
| | Disagree | 7 | 11% |
| | Neither agree nor disagree | - | - |
| | No Response | 6 | - |
| | Totals | 69 | 100% |

| SMC 12(d) Would a two-year transition period assist in overcoming any challenges? | Response | Number | % of those who responded (total 59) |
|---|---|---|---|
| | Agree | 47 | 80% |
| | Disagree | 10 | 17% |
| | Neither agree nor disagree | 2 | 3% |
| | No Response | 10 | - |
| | Totals | 69 | 100% |

# Annex Aii Results of Survey for ED1 Narrative Reporting

**How important are the proposed principles about information used for narrative reporting?**

Answered: 58    Skipped: 0



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