



Practitioners Advisory Group

Issue Paper

AGENDA ITEM: PAGFG04-02

14 November 2024 – Online

Supplementary Information – Response to ED3

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| Summary | <p>This paper provides PAG members with:</p> <ul style="list-style-type: none">• a summary of the responses to the specific matters for comment (SMCs) for issues relating to section 37 <i>Supplementary information</i> and INPAG Practice Guide 1 <i>Supplementary statements</i>• the Secretariat's views on the practical/operational issues identified, and• suggested approaches for the final guidance. |
| Purpose/Objective of the paper | <p>The purpose of this paper is to provide an analysis of the responses to the SMCs on ED3 of Section 37 and INPAG Practice Guide 1 for practical issues relating to their application. It seeks the views of PAG members on suggested approaches to the final guidance based on respondents' views and feedback on specific proposals.</p> |
| Other supporting items | NA |
| Prepared by | Sarah Sheen |
| Actions for this meeting | <p><u>Comment on:</u></p> <ul style="list-style-type: none">• whether there should be more flexibility in the supplementary statement• the reporting of support service costs• whether any of the optional reporting formats should be made mandatory• the approach to capital and inventory acquisition cost reporting. |

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Supplementary Information – Response to ED3

1. Introduction

- 1.1 This paper provides:
- a summary of the responses to the specific matters for comment (SMCs) for issues relating to section 37 *Supplementary information* and INPAG Practice Guide 1 *Supplementary statements* – see Appendix A;
 - the Secretariat's views on the practical/operational issues identified; and
 - suggested approaches for the final guidance.

2. Background

- 2.1 Section 37 is a new section in INPAG. It requires presentation of information about the entire NPO, that is compliant with the analysis of information set out in INPAG Practice Guide 1- Supplementary statements (The Practice Guide). Application of Section 37 is only required where and NPO uses the Practice Guide. This creates a link between the general purpose financial statements to any supplementary statement(s) being prepared in accordance with the Practice Guide and provides an auditable base from which the statements can be produced.
- 2.2 To comply with INPAG Section 37, NPOs can present a separate note within the general purpose financial statements with information for the whole entity using the format of the supplementary statement in the Practice Guide. Alternatively, NPOs can rely on the information available elsewhere in the financial statements to comply with Section 37.
- 2.3 The Practice Guide enables the presentation of key financial information about specified activities, projects or grants that could be useful to stakeholders for accountability purposes. The Practice Guide is not part of INPAG, rather it is a complementary publication. The Practice Guide stipulates specific categories of income, expenses, other costs, transfers and fund balances to be presented in a prescribed format. The format includes a classification of the direct costs of an activity, grant or project by nature.
- 2.4 A survey to accompany Exposure Draft 3 (ED3) was carried out that considers some of the reporting issues that relate to both Section 37 and INPAG

Practice Guide 1. The results of the survey have been incorporated into the analysis of responses where relevant.

3. Application of Section 37 where Supplementary Statements are not Produced

- 3.1 For SMC3(a) ninety percent of respondents agreed that the requirements of Section 37 do not have to be met unless supplementary statements are prepared in accordance with the Practice Guide, with eight percent disagreeing and two percent neither agreeing nor disagreeing. Fifteen respondents did not answer this SMC.
- 3.2 Several respondents that agreed with the SMC commented that this exemption provides flexibility for NPOs and removes an unnecessary burden on preparers that do not prepare supplementary statements. Another respondent commented that this would ensure that the financial statements remained streamlined and relevant. A further respondent noted that this would be important for smaller NPOs.
- 3.3 A respondent that agreed questioned whether “the INPAG” can include guidance on the treatment of expenses that donors will not recognise and whether there should be a requirement to reconcile supplementary statements to the financial statements.
- 3.4 The Secretariat considers that as paragraph SS.16 covers ineligible costs it addresses the circumstances where donors will not recognise expenses (paragraph SS.16 is extracted for information in Appendix B). This paragraph includes a requirement for a reconciliation to the general purpose financial statements.
- 3.5 The Secretariat would highlight that the Practice Guide also includes other reconciliation requirements to the financial statements including:
- Paragraph SS.17 – the opening and closing balances of the funds related to a specified activity which must be cross-referenced and reconciled to the Movement in Funds note in general purpose financial statements.
 - Paragraph SS.23(d) a reconciliation where support costs are included in the disclosures required by Section 24 Part II Classification of expenses.

The Secretariat would also refer PAG Members to Section 7 of this paper.



Question 1: Do PAG Members agree that the reporting requirements for expenses not allowed by donors are clear in the Practice Guide (See Appendix B to this paper)?

Question 2 Do PAG Members consider that appropriate reconciliations are identified in the Practice Guide or are any further reconciliations required (see for example paragraphs SS.17 and SS.23(d)) but see also the discussion in Section 7 of this report?

- 3.6 A respondent that disagreed commented that an NPO should have the flexibility to adapt its reporting format to its specific information needs and the expectations of financial statement users. The respondent commented that supplementary information is essential for providing a complete and relevant view of the organisation and limiting how it is presented could restrict the report's clarity and usefulness for stakeholders. Two respondents that disagreed were of the view that the requirements of the disclosure can be met by explaining [the relevant information] in the notes to the financial statements rather than the supplementary statements.
- 3.7 Feedback during stakeholder outreach throughout the course of the IFR4NPO project has highlighted the lack of harmonisation of donor reporting formats and that this results in a significant burden on Non-Profit Organisations (NPOs). The Practice Guide seeks to reduce that burden. The Secretariat considers that the Practice Guide provides a mechanism to support harmonisation. if an NPO's users deem that alternative reporting formats are necessary they can still be used.
- 3.8 One respondent to this SMC disagreed with the requirements of Section 37 not being mandatory. There were of the view that they are essential to ensure transparency in the information provided. The Secretariat agrees that Section 37 will promote transparency but is of the view that where supplementary statements are either not produced or not produced in accordance with the Practice Guide an opportunity should be sought to minimise the reporting burdens for NPOs.

Question 3: Do PAG Members have any concerns about allowing NPOs to not apply the requirements of Section 37 unless Supplementary statements are prepared in accordance with the Practice Guide?

4. Presentation of the Supplementary Statement in General Purpose Financial Reports

- 4.1 Ninety-three percent of respondents agreed with SMC3(b) that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes. Seven percent disagreed. Seventeen respondents did not answer this SMC.
- 4.2 Most of the respondents that agreed with this SMC (including two donor respondents) were of the view that a whole of NPO supplementary statement need not be presented because it will avoid duplication, information overload, reduces the reporting burden and will make the general purpose financial reports more “user friendly”.
- 4.3 A respondent that disagreed commented that the supplementary statement presentation is much more user friendly, and the subtotals and balances are important for reconciliation purposes.
- 4.4 Two respondents were of the view that although the disclosures may appear elsewhere in the financial statements, presenting a supplementary statement in accordance with the Practice Guide provides a standardised structure that enhances comparability and transparency.
- 4.5 The Secretariat agrees that the supplementary information being included in one statement brings the information together and augments transparency. However, it is of the view that if the information is already provided in the financial statements, this has the potential to duplicate information which can obscure the key messages in the financial statements which would not improve accountability and transparency.

Question 4: Do PAG members have any concerns about not presenting a whole NPO supplementary statement if the relevant information is already in the financial statements and/or notes?

5. Format of the Supplementary Statement

- 5.1 Ninety-one percent of respondents to the consultation in ED3 agreed with the format of the supplementary statement per SMC3(c). Nine percent disagreed. Seventeen respondents did not answer this SMC.

- 5.2 Just under eighty percent of the 120 respondents to the survey that accompanied ED3 agreed or agreed with caveats to the format of the supplementary statement.
- 5.3 There were numerous supportive comments from stakeholders, including that the standardised expenditure headings are particularly helpful. This included five donor respondents, one whom indicated that the format is clear and well-structured, making it easy for NPOs to disclose additional project or grant-specific information.
- 5.4 Other supportive comments from donor respondents focused on the harmonisation of information needs and the flexibility offered by the example formats, with one commenting that it was likely to be aligned to best practice, but another suggested that it would be important to demonstrate that the Practice Guide is harmonised with all major donors.
- 5.5 A few respondents made comments on the reporting of support costs, with some donors indicating that they would prefer that there are mandatory reporting requirements to report support services separately. As currently drafted the Practice Guide offers flexibility of reporting, allowing support costs to be separately reported or absorbed into the analysis of expenses by nature.
- 5.6 Respondents who both agreed and disagreed (including a donor that disagreed) suggested that NPOs should be allowed flexibility with the format of the supplementary statement to meet the individual reporting requirements of various donors or funders. This could, for instance, involve the inclusion of additional lines. However, the Secretariat believes that a standardised format should be upheld to promote harmonisation and ease the reporting burden on NPOs. There is flexibility through the additional formats in Annex B to the Practice Guide and the provisions for additional reporting in paragraph SS.23.
- 5.7 Comments also focused on whether some of the optional reports (for example the budgetary format) should be made mandatory. This included a donor respondent commenting that this would need to be mandatory if it were to replace their current reporting. The Secretariat is of the view that funders can take their own decisions on this as a part of their requirements for financial reporting.

Question 5: Do PAG members agree with the Secretariat's view that the supplementary statement format should remain standardised?

Question 6: Do PAG members consider that the Practice Guide should mandate any of the additional reporting formats in Annex B or should it maintain the current flexibility?

6. Reporting of Capital and Inventory Related Costs in the Supplementary Statements

- 6.1 For SMC 3(d) eighty-seven percent of respondents agreed with the options for the disclosure of capital and inventory related costs. Two percent disagreed and eleven percent neither agreed nor disagreed. Eighteen respondents did not answer this SMC.
- 6.2 Over eighty percent of the 127 respondents to the survey were of the view it was either very important or somewhat important that the Practice Guide includes the optional presentation of capital (asset acquisition) and inventory related costs.
- 6.3 Respondents who agreed noted that this option was valuable, as it facilitated the reporting of items not entirely consumed within the year. One donor mentioned that this practice ensures transparent reporting of capital and inventory-related costs. Another respondent highlighted that it partially bridged the gap between cash reporting, which they found beneficial. A further respondent indicated that this was particularly useful where NPOs were (capital) asset intensive.
- 6.4 A donor respondent suggested a simplification for the reporting of capital and inventory ie that this should be included as one line in the body of the expense analysis rather than a separate section of the supplementary statement. This approach could have the effect of making these costs appear to be reported on an accrual basis. The Secretariat is of the view that while this would potentially allow a simplification it would either result in a mix of accrual and cash basis reporting or would not allow for the reporting of the acquisition costs of these items.
- 6.5 A few respondents sought clarification on the consistency of treatment of the approach across all capital items used over time and between capital and inventory items.

- 6.6 The Secretariat is of the view that this approach should be used consistently across all capital items and throughout the reporting periods of the project and will amend the Practice Guide to clarify this treatment.
- 6.7 A respondent queried whether the optional treatments permitted for capital and inventory items can be exercised separately or whether it needed to be applied to both. The current draft of the Practice Guide allows the option of reporting the acquisition costs of these items to be considered separately. However, if two separate approaches are used for the items, it might lead to confusion to the statement's users and the Secretariat would welcome views on whether the Practice Guide should maintain this position or require that both capital and inventory are treated consistently?
- 6.8 A respondent sought clarification on whether the depreciation being removed is the charge that year for all grant funded assets, or only the depreciation relating to the grant funded acquisitions in the financial reporting period. More guidance was also sought on how to calculate the figure for 'opening balance including inventory and capital costs'.
- 6.9 The Secretariat is of the view that if this option in the supplementary statement is used, once depreciation is removed for an acquired asset it should also be presented as being removed in the optional section of the statement for future reporting periods until this asset is depreciated or the specified activity to which the grant relates is completed. This is to ensure that the value of the closing reserves will be able to be reconciled under the accrued and optional presentations and avoid overstating the cost of the asset. Depreciation on assets not acquired specifically for the specified activity, but which nevertheless are used for to perform the activity will be shown as depreciation within expenses. These assets are not eligible for inclusion in the optional supplementary statement section.
- 6.10 It may be useful to include more guidance on the opening balances.

Question 7: Do PAG members consider that the Secretariat should explore the suggested option for simplification of the reporting of capital and inventory acquisition costs?

Question 8: Do PAG members consider that NPOs should be able to apply the options for the reporting of the acquisition cost of capital items separately or should there be consistent treatment for both?

Question 9: What are PAG Members views on depreciation of grant funded assets where an NPO has decided to use the optional presentation in the

Practice Guide and in particular that depreciation should be removed for all reporting periods using this optional section until the asset is life expired?

7. Reconciliation to the financial statements

- 7.1 One of the respondents to SMC3(b) that disagreed requested clarification on whether movements relating to revaluation reserves and equity claims, which do not relate to funds, need to be included in the whole of entity supplementary information.
- 7.2 Paragraph G37.2 specifies that the information must conform to the format of INPAG Practice Guide 1 – *Supplementary statements*. Paragraph G37.7 specifies that information must be prepared in accordance with the reporting boundary of the NPO or be reconciled to it where the supplementary statement departs from the boundary. However, although the Practice Guide refers to the reconciliation to the Movements in Funds note, Section 37 is not explicit about the elements of the financial statements to which the note should reconcile (and thus the totality of the income/expenses to be reported in the note).
- 7.3 The Secretariat is of the view that it will be useful to clarify the elements of the financial statements to which the supplementary statements need to be reconciled. The Secretariat proposes adding the clarification that for the whole of entity supplementary statement required by Section 37 that:
- (a) total income must be total income as presented in the Statement of Income and Expenses
 - (b) total expenses must be total expenses as presented in the Statement of Income and Expenses
 - (c) foreign exchange gains and losses must be foreign exchange gains and losses as presented separately in either, or both of the Statement of Income and Expenses and Statement of Changes in Net Assets
 - (d) transfers between funds are zero (as they net out across the NPO)
 - (e) any other financial movements must total to other amounts presented in the Statement of Income and Expenses and any other items of other comprehensive income presented in the Statement of Changes in Net Assets not included in a) to c) above.

Where an NPO is preparing supplementary statements using a different reporting boundary or different accounting policies to those used in preparing the general purpose financial statements, a reconciliation of the differences for a) to e) above will be required.



- 7.4 The Secretariat is of the view that the presentation of this note would not include any movements in equity claims or accounting reserves that are not part of funds. This means that a whole of entity Supplementary statement will reconcile to the total movement in funds.

Question 10: What are PAG members' views on the proposed clarification of which elements and transactions in the financial statements need to be reconciled with the note required by Section 37?

November 2024



Appendix A

Summary of Feedback Responses on Supplementary Statements

| SMC 3(a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1– Supplementary statements? If not, why not? | Response | Number | % of those who responded |
|--|----------------------------|--------|--------------------------|
| | Agree | 43 | 90% |
| | Disagree | 4 | 8% |
| | Neither agree nor disagree | 1 | 2% |
| | No Response | 15 | - |
| | | 63 | 100% |

| SMC 3(b) Do you agree that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not? | Response | Number | % of those who responded |
|---|----------------------------|--------|--------------------------|
| | Agree | 43 | 93% |
| | Disagree | 3 | 7% |
| | Neither agree nor disagree | - | - |
| | No Response | 17 | - |
| | | 63 | 100% |

| SMC 3(c) Do you agree with the format of the Supplementary statement? If not, what would you change and why? | Response | Number | % of those who responded |
|--|----------------------------|--------|--------------------------|
| | Agree | 42 | 91% |
| | Disagree | 4 | 9% |
| | Neither agree nor disagree | - | - |
| | No Response | 17 | - |
| | | 63 | 100% |



| SMC 3(d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why? | Response | Number | % of those who responded |
|---|----------------------------|---------------|---------------------------------|
| | Agree | 39 | 87% |
| | Disagree | 1 | 2% |
| | Neither agree nor disagree | 5 | 11% |
| | No Response | 18 | - |
| | | 63 | 100% |

| SMC 3(e) Do you agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not? | Response | Number | % of those who responded |
|--|----------------------------|---------------|---------------------------------|
| | Agree | 40 | 82% |
| | Disagree | 5 | 10% |
| | Neither agree nor disagree | 4 | 8% |
| | No Response | 14 | - |
| | | 63 | 100% |

Extract of Paragraph SS16 the Reporting of Ineligible Transactions in the Practice Guide

Ineligible transactions

SS.16 There may be transactions that are ineligible to be charged against a grant. This could include expenses or other gains and losses. Depending on the requirements of the stakeholder for whom the statement is being prepared and the scope of the Supplementary statement, there are three options for the presentation of ineligible expenses:

- a) Exclude them from the statement completely;
- b) Transfer them by including the ineligible costs within the appropriate line item and then deducting them using the transfers line on the face of the statement; or
- c) Separately disclose them by including the ineligible expenses in a separate column, with the column heading showing the source of funds to cover these expenses.

Whichever option is chosen, the Supplementary statement shall be reconciled to the general purpose financial statements. This provides transparency about the amounts covered by other sources of funding.